

UNITED STATES PATENT AND TRADEMARK OFFICE  
UNITED STATES DEPARTMENT OF JUSTICE  
FEDERAL TRADE COMMISSION

THE INTERSECTION OF COMPETITION POLICY AND  
PATENT POLICY: IMPLICATIONS FOR PROMOTING  
INNOVATION

Washington, D.C.

Wednesday, May 26, 2010

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A G E N D A

Welcoming Remarks

ARTI RAI  
Administrator for External Affairs  
U.S. Patent and Trademark Office

DAVID KAPPOS  
Under Secretary of Commerce for  
Intellectual Property;  
Director, U.S. Patent and Trademark Office

CHRISTINE A. VARNEY  
Assistant Attorney General  
Antitrust Division  
U.S. Department of Justice

ANEESH CHOPRA  
U.S. Chief Technology Officer  
Executive Office of the President

Panel 1: The Patent Application Backlog: The  
Competitive Challenges for Innovators

Moderators:

ARTI RAI  
Administrator for External Affairs  
U.S. Patent and Trademark Office

ERICA MINTZER  
Senior Counsel for Competition and  
Technology, Antitrust Division  
U.S. Department of Justice

Panelists:

JOHN F. DUFFY  
Oswald Symister Colclough Research  
Professor of Law, George Washington  
University Law School

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A G E N D A

JOSHUA MAKOWER, M.D.  
Founder & CEO, ExploraMed Development LLC

MICHAEL MEURER  
Professor of Law, Boston University School  
of Law

RICHARD T. OGAWA  
Ogawa P.C.

SCOTT STERN  
Joseph and Carole Levy Professor Kellogg  
School of Management Northwestern  
University; Visiting Professor MIT Sloan  
School of Management

Panel 2: Permanent Injunctions in the District  
Courts and ITC: Effects on Competition and  
Innovation

Moderators:

SUZANNE MICHEL  
Deputy Director, Office of Planning  
Federal Trade Commission

RAYMOND CHEN  
Deputy General Counsel and Solicitor  
U.S. Patent and Trademark Office

Panelists:

WILLIAM BARR  
Former General Counsel  
Verizon Communications Inc.

BERNARD J. CASSIDY  
Executive Vice President and General  
Counsel, Tessera Technologies Inc.

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A G E N D A

COLLEEN CHIEN  
Assistant Professor of Law  
Santa Clara Law School

ALICE A. KIPEL  
Partner, Steptoe & Johnson LLP

CHRISTINE MCDANIEL  
Economic Adviser to Shara L. Aranoff  
U.S. International Trade Commission

EMILY WARD  
Vice President and Deputy General Counsel  
eBay Inc.

Luncheon Introductory Remarks

EDITH RAMIREZ  
Commissioner, Federal Trade Commission

Panel 3: Standard Setting, Patent Rights, and  
Competition Policy

Moderators:

FRANCES MARSHALL  
Special Counsel for Intellectual Property,  
Antitrust Division  
U.S. Department of Justice

WILLARD K. TOM  
General Counsel Federal Trade Commission

Panelists:

MARK CHANDLER  
Senior Vice President and General Counsel  
Cisco Systems Inc.

## 1 A G E N D A

2 PATRICK GALLAGHER  
3 Director, National Institute of Standards  
and Technology  
4 U.S. Department of Commerce

5 BRIAN KAHIN  
6 Senior Fellow, Computer and Communications  
Industry Association

7 ANNE LAYNE-FARRAR  
8 Director, LECG

9 AMY A. MARASCO  
10 General Manager, Standards Strategy  
11 Microsoft Corporation

12 STANFORD MCCOY  
13 Assistant, U.S. Trade Representative for  
14 Intellectual Property and Innovation  
15 Office of the U.S. Trade Representative  
16 Executive Office of the President

17 A. DOUGLAS MELAMED  
18 Senior Vice President and General Counsel  
19 Intel Corporation

20 Introductory Remarks

21 CAMERON KERRY  
22 General Counsel  
U.S. Department of Commerce

Wrap-Up Discussion

19 CARL SHAPIRO  
20 Deputy Assistant Attorney General for  
21 Economic Analysis Antitrust Division  
22 U.S. Department of Justice

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A G E N D A

JOSEPH FARRELL  
Director, Bureau of Economics  
Federal Trade Commission

STUART GRAHAM  
Chief Economist  
U.S. Patent and Trademark Office

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## 1 P R O C E E D I N G S

2 (9:10 a.m.)

3 MS. RAI: Good morning. I'm Arti Rai.  
4 I'm the Administrator for External Affairs at the  
5 USPTO and I want to welcome all of you to what I  
6 understand is the first ever FTC, DOJ, PTO joint  
7 conference, and our conference today will look at  
8 the Intersection of Competition Policy and Patent  
9 Policy for Purposes of Promoting Innovation. We  
10 have a bunch of different panels and a number of  
11 excellent speakers.

12 What I'd like to do without further ado,  
13 however, is turn the forum over to David Kappos,  
14 our Under Secretary of Commerce for Intellectual  
15 Property and the Director of the U.S. Patent and  
16 Trademark Office who will offer some introductory  
17 remarks and introduce two other speakers,  
18 Christine Varney, the Assistant Attorney General  
19 from the Antitrust Division of the U.S. Department  
20 of Justice, and Aneesh Chopra, the U.S. Chief  
21 Technology Officer.

22 One housekeeping note. If anyone needs

1 sign language services, we have them available, so  
2 do let me know if you need them. Thank you very  
3 much. David Kappos?

4 MR. KAPPOS: Good morning. It's really  
5 quite a pleasure to welcome you all to the USPTO  
6 this morning. What I'd like to do is to start out  
7 by first of course thanking everybody for  
8 attending this meeting and welcome first our  
9 distinguished panelists and guests from academia,  
10 from the private sector and from government to  
11 this meeting. I'd like to offer a few special  
12 welcomes at the outset. First of all to my  
13 co-hosts for this forum, Christine Varney,  
14 Assistant Attorney General for Antitrust at the  
15 Department of Justice, and to Edith Ramirez,  
16 Commissioner of the Federal Trade Commission. I'd  
17 also like to welcome Aneesh Chopra, U.S. Chief  
18 Technology Officer, and Cam Kerry, the General  
19 Counsel for the Department of Commerce. Thank you  
20 as well to all of our guests from the Department  
21 of Justice and from the Federal Trade Commission  
22 for your efforts in cosponsoring this event today.

1           It's worth noting at the outset to  
2       amplify Arti Rai's comments slightly that today  
3       represents perhaps the first ever event of its  
4       kind between these three organizations and  
5       reflects the commitment of our colleagues at DOJ  
6       and at FTC working with us at the USPTO as well as  
7       the Office of Science and Technology Policy to  
8       work closely to foster innovation. Our common  
9       goal is to promote American economic progress  
10      through innovation. Today's conference is an  
11      opportunity to further the discussion and to make  
12      progress toward defining an interagency innovation  
13      strategy for our administration.

14           The economic success of our country is  
15      firmly rooted in the history of American  
16      innovation. In fact, since World War II,  
17      three-quarters of our nation's economic growth has  
18      been linked to innovation. However, the world in  
19      which innovation occurs has become decidedly more  
20      intertwined and more complex. In recent decades  
21      we've seen different areas of public policy  
22      relative to innovation overlap in new ways.

1 Patent policy and competition policy for example  
2 share the purpose of fostering a dynamic and  
3 competitive environment for innovation and we must  
4 coordinate and collaborate further if we're to  
5 maximize our success in fostering this  
6 environment. Beginning on the IP side,  
7 high-quality patents issued in a timely manner  
8 provide an incentive to invest as well as an  
9 incentive to disclose inventions into the patent  
10 system and eventually to the public. Conversely,  
11 large numbers of issued and pending patents of  
12 dubious quality and with ambiguous characteristics  
13 have hindered the effect on innovation. Right now  
14 the backlog of patent applications at the USPTO is  
15 over 700,000 applications.

16 As you know, reducing that backlog is  
17 one of my highest priorities, one of our highest  
18 priorities here at the USPTO. The backlog delays  
19 the progress of innovation particularly for small  
20 and new firms which are the firms that create the  
21 most job and grow the fastest, and it stalls the  
22 deployment of innovation into the marketplace.

1 Illustrative examples of this problem are not hard  
2 to find at all. Take the now defunct California  
3 company OQO. OQO made the smallest laptop  
4 computers. I've seen them and they're actually  
5 very, very innovative devices, the kind of  
6 technology most Americans would associate with  
7 Asian manufacturers. The OQO machine has a  
8 compact, well- engineered design, high-functioning  
9 processor, leading-edge software, basically a  
10 full-function laptop that you can fit in your  
11 pocket. What happened to OQO? OQO like many  
12 other startups found that although its revenue was  
13 increasing year over year, it needed additional  
14 funding for operating and growth capital. At the  
15 time, OQO had over 90 patent applications in our  
16 backlog and 13 patents granted. So the primary  
17 residual asset OQO could leverage to attract  
18 funding was its portfolio of 13 granted patents.  
19 The over 90 applications in the backlog could not  
20 be leveraged to attract capital, so the backlog of  
21 the USPTO prevented OQO from making appropriate  
22 and full use of its innovation in the marketplace.

1 The founders of the company and the 75 employees,  
2 we'll never know what could have been if their 90  
3 applications had been examined promptly.

4 By the same token, patent application  
5 processing delays cause problems for competitors  
6 as well, everybody else in the marketplace --  
7 firms cannot be assured of freedom to operate  
8 unless the meets and bounds of others' rights are  
9 clear, but what is also clear is that different  
10 firms of different sizes and in different  
11 technology sectors have different needs when it  
12 comes to processing time. So put simply, one  
13 pendency speed does not necessarily suit all.

14 So we're thinking creatively here at the  
15 USPTO about efficient solutions to this backlog  
16 problem. I'm confident today that the members of  
17 our panel on the backlog which include both  
18 academics who have studied the issue as well as  
19 entrepreneurs who live the issue on a daily basis  
20 will shed significant light on the contours of the  
21 problem and hopefully plant seedlings toward  
22 creative solutions.

1           We're also mindful of developments in  
2           the courts that will impact patent enforcement.  
3           Right after the decision in eBay v. Merc Exchange,  
4           for example, prospects for injunctive relief can  
5           look somewhat different in the district courts and  
6           that's a good thing. I look forward to hearing  
7           the perspective of our distinguished panel members  
8           on this issue as well.

9           As is the case with the patent system,  
10          the system of laws designed to foster competition  
11          also must be carefully calibrated to ensure that  
12          they promote innovation. Questions at the  
13          intersection of patent policy and competition  
14          policy become ever more complex in the area of  
15          standards. This is because patents that are  
16          essential to practicing a standard become far more  
17          valuable once the standard is adopted and the  
18          relevant technologies are commercialized. For  
19          both standard-setting bodies and individual firms  
20          involved in standard setting as well as those  
21          firms who implement standards in the public that  
22          uses the products that result from those standards

1 and their implementation, it is thus critical to  
2 identify relevant patent rights, ensure that  
3 applicable patents are available on reasonable  
4 terms and conditions, and take necessary and  
5 appropriate steps to address patent holdup  
6 scenarios. In the U.S., we have long relied on a  
7 market-based and private-sector driven approach  
8 to developing standards and we believe this type  
9 of voluntary consensus-based approach has been  
10 largely successful. But addressing intellectual  
11 property and standards has been a consistent  
12 challenge both in cases where standard setting is  
13 used only by the private sector and in cases where  
14 it's adopted by government agencies. NSTC has  
15 established a subcommittee on standards which is  
16 looking broadly at the question of standards  
17 adopted by government agencies. The USPTO is co-  
18 leading a working group within that subcommittee  
19 on IP and standards and we believe we can do some  
20 very important work there. We look forward to  
21 learning from today's panel on standards. I'm  
22 sure the knowledge we gather will feed into our

1 working group's process.

2 So we gather here today knowing that we  
3 have a great opportunity to lead our country  
4 forward toward and to renew America's leadership  
5 in an innovation economy that fuels growth and  
6 that creates jobs. To do so our country's  
7 innovation leaders, that's those of us in this  
8 room, must work together closely to identify and  
9 resolve the complex, often overlapping challenges  
10 facing the innovation community.

11 So I'd like to thank you again for being  
12 here today with us and for participating in these  
13 important discussions. Now please join me in  
14 welcoming a great partner and friend to the USPTO  
15 and to me personally, the Assistant Attorney  
16 General for Antitrust, Christine Varney.

17 MS. VARNEY: Good morning. Let me begin  
18 by thanking the Patent and Trademark Office for  
19 putting this workshop together and inviting the  
20 Department of Justice to participate. I  
21 especially want to thank Dave Kappos and his  
22 entire team not only for today but for their

1 ongoing efforts to improve the administration and  
2 enforcement of intellectual property rights both  
3 here and abroad. I'm going to amplify on Dave's  
4 comments on standard setting, but before I do I  
5 want to talk for just a moment on how invention  
6 and innovation are critical in promoting economic  
7 growth, creating jobs and maintaining  
8 competitiveness in the global economy.

9 Progress in technology and production  
10 drives prices down and quality up while expanding  
11 consumer choice. Technologies that alleviate  
12 illness and extend our lives, that deliver food  
13 and water to vulnerable populations, and that  
14 allow families separated by oceans to connect face  
15 to face add value to our lives beyond what can be  
16 measured in dollars. In short, innovation is the  
17 essential element not only of economic growth but  
18 of human progress.

19 Properly understood, both patent and  
20 antitrust work together, each complementing the  
21 other. Both disciplines promote dynamic  
22 efficiency, a system of property rights and market

1 rules that create appropriate incentives for  
2 invention, innovation and risk taking, delivering  
3 the greatest return for society, not just for  
4 today but for tomorrow as well. American patent  
5 law's devotion to the progress of science and  
6 useful arts is old as the Constitution itself. I  
7 am committed to making sure that antitrust equally  
8 embraces such progress. Vigorous antitrust  
9 enforcement is key to fostering competition that  
10 in turn requires innovation in order to succeed in  
11 the marketplace and furthers that constitutionally  
12 enshrined progress.

13 Antitrust and patent law promote  
14 innovation and efficiency in different ways. The  
15 patent grant creates the system of intellectual  
16 property rights that helps inventors earn a return  
17 on their invention. It transforms a claimed piece  
18 of intellectual progress into an exclusive piece  
19 of property. Antitrust in turn treats the piece  
20 of intellectual property much like any other piece  
21 of property and imposes some rules about how it  
22 can be used. Antitrust is concerned with

1 protecting the competitive environment that allows  
2 companies to constantly innovate and to profit  
3 when they do so successfully. Antitrust and  
4 patent law work together to create and preserve  
5 the appropriate incentives for technological  
6 progress by creating property rights and  
7 preserving competition around those rights.

8           There is a lot at stake for competition  
9 and innovation in getting the balance of  
10 intellectual property and antitrust just right.  
11 Our ability to use one part of the system to  
12 correct for weaknesses in the other is quite  
13 limited. That is what makes today's session so  
14 important. The competitive implication of flaws  
15 in our system of intellectual property rights or  
16 antitrust enforcement are tremendous. Although  
17 many of the issues on the table today are properly  
18 issues of patent or antitrust in the first  
19 instance, it is the intersection of these two  
20 disciplines that I hope you will keep in mind  
21 today.

22           When the system of intellectual property

1 rights enforcement strategies, antitrust rules and  
2 infringement remedies is working well, rewards for  
3 invention that reflect the value of invention  
4 flourish. It is important to distinguish between  
5 invention, the act of having an idea and rendering  
6 it into a working design, and innovation, the act  
7 of taking inventive ideas and designs and bringing  
8 them to market. Invention and innovation together  
9 produce tremendous welfare and the benefits should  
10 reward the inventor, the innovator and consumers.  
11 Yet depending on how the rules and systems  
12 operate, inventors can get too little reward which  
13 reduces incentive for the next inventor or they  
14 can get too great a reward which reduces the  
15 incentive for innovators to take that idea to  
16 market or for other inventors to build upon it  
17 with subsequent inventions. In our legal and  
18 economic systems, we rely on market forces to  
19 determine how economic reward is apportioned. We  
20 all need to take care that we enable and preserve  
21 a legal system that allows the market to allocate  
22 reward and promote economic growth. A properly

1       functioning market relies on well-informed and  
2       up-front negotiation between intellectual property  
3       rights holders and the innovators or implementers  
4       seeking to build upon those rights. Ideally,  
5       transactions in intellectual property should be as  
6       close to possible as dealings in traditional  
7       property. The parties should know what they are  
8       getting, they should deal at arm's length, and  
9       they should be able to do so when they are still  
10      in a position to choose among reasonable  
11      alternatives. In a well-functioning system, we  
12      can generally trust these up-front negotiations to  
13      result in enhanced consumer welfare. To make our  
14      system work then we should ensure that patent and  
15      antitrust law and policy foster these up-front  
16      negotiations to the greatest extent possible.  
17      This is a theme, I think, you will hear quite a  
18      bit about today.

19                As I said, as you start, I'd like to  
20      spend just a few minutes on the arena where  
21      antitrust and IP most often directly intersect,  
22      standard setting. Standard setting creates

1 enormous benefits for business and consumers.  
2 Compatibility standards make networks like the  
3 internet, mobile phones, and other products that  
4 are revolutionizing our world, both possible and  
5 more valuable by allowing diverse products to  
6 interoperate. Setting such standards  
7 collaboratively can promote competition while  
8 avoiding many of the costs and delays of a  
9 standards war and those savings will redound to  
10 the benefit of both firms and consumers. Of  
11 course, collaborative standard setting could in  
12 theory be used to reduce the healthy competition  
13 that produces consumer welfare and choice. This  
14 is a concern which both antitrust and the courts  
15 are well aware of. Antitrust law must ensure that  
16 standard-setting benefits are realized while  
17 abuses are prosecuted. To my mind, there are four  
18 broad principles that standard-setting  
19 organizations should bear in mind as they set  
20 their rules regarding intellectual property.

21 First, SSO rules should be clear and  
22 well defined. The clearer the rules, the easier

1       they are to comply with, the easier they are to  
2       police and the easier they are to enforce.

3       Second, the rules should be structured to reduce  
4       the incentive for holdup. That means they should  
5       provide strong incentives for early and effective  
6       disclosure of relevant patents. Third,  
7       enforcement mechanisms for violating the rules  
8       including failure to disclose relevant IP should  
9       be clear and certain. Effective and predictable  
10      sanctions will not only remedy problems but also  
11      deter the vast majority of misbehavior. Finally,  
12      SSOs must seek balance rules which are neither too  
13      onerous nor too punitive of unintentional mistakes  
14      so that there are no unnecessary barriers to  
15      prevent patent holders' participation. In short,  
16      SSO rules should be designed to approximate the  
17      result of well-informed, up-front negotiation so  
18      that efficient choices are made about which  
19      technologies are included in a standard and at  
20      what cost. Experimenting with such rules is  
21      predominantly a private matter for the SSOs  
22      themselves, but let me close with a few quick

1 points about how government can play a role.

2 First, we should acknowledge the reality  
3 that standard-setting bodies generally consist of  
4 technology sellers and buyers and such  
5 self-interested actors do not necessarily adopt  
6 rules that facilitate the return of standard  
7 setting to be passed on to the final consumer. In  
8 an ideal system, competition ensures that this  
9 pass through occurs. Antitrust has a role to play  
10 in making sure that SSO rules actually adopted by  
11 private bodies are consistent with competition and  
12 consumer welfare. That role should and will be  
13 fulfilled through careful and considered  
14 articulation of legal standards that will not  
15 chill legitimate and efficient standard-setting  
16 activity.

17 Second, government bodies should be  
18 aware that abusive standards can be a barrier to  
19 free trade. As the United States Trade  
20 Representative has very clearly articulated,  
21 standards-related measures that are  
22 nontransparent, discriminatory or otherwise

1       unwarranted can act as significant barriers.

2       Indeed, although standards have a host of

3       legitimate uses, they can be used to make it

4       difficult or impossible for imported products to

5       compete with local supply sometimes excluding

6       superior goods from reaching local markets to the

7       detriment of consumers. Where possible, technical

8       standards should be designed to facilitate

9       competition from a wide array of producers, not to

10      stifle it. It is essential that technical

11      standards and the conformity assessment procedures

12      used to ensure compliance are transparent and

13      nondiscriminatory. Finally, government has a role

14      to play as a guide and facilitator of

15      conversation. Voluntary consensus-based standard

16      setting by private organizations has been hugely

17      successful. But with efforts like today's

18      government's undertaking, we can help elevate the

19      conversation. We can shed light on what our

20      expectations are. The bulk of experimentation and

21      trial-and-error work has been private and by

22      bringing together those skilled in this art it is

1 my hope that government can foster progress in the  
2 science of standard setting itself.

3 The challenges I have discussed and that  
4 we will be discussing today are obviously  
5 complicated. I have no illusions about our  
6 ability to cover them all, let alone solve them  
7 all. Yet I hope today's session fosters an  
8 ongoing conversation about how to best create and  
9 preserve appropriate incentives for invention and  
10 innovation in our dynamic economy. That is a  
11 discussion that I along with the entire government  
12 that's here today am happy to be a part of.  
13 Though the tools used by the antitrust agencies  
14 and the PTO are different, we are on a common  
15 quest to promote innovation, competition and  
16 efficiency, and though these issues are difficult  
17 ones, I am confident that the Obama Administration  
18 will make enormous progress. Thank you so much  
19 and good luck today.

20 MR. KAPPOS: Thank you very much,  
21 Christine. Some wonderful comments to help get us  
22 started, and particularly with focus on the

1 intersection between IP and standards, I hope  
2 we're going to get to discuss that a lot today.

3 Without further ado I'd like to now turn  
4 the podium over to another great colleague in the  
5 administration, the United States of America's  
6 Chief Technology Officer, Aneesh Chopra.

7 MR. CHOPRA: My role is simple and brief  
8 this morning and it is threefold. It begins with  
9 a thank you to Christine and Dave who are  
10 essentially two of our shining stars in the  
11 administration, and along with Commissioner  
12 Ramirez who will be here later today, I believe  
13 this is one of the first occasions where our  
14 collective agencies have come together to engage  
15 on such an important topic. By the way, that was  
16 the President's call on his first full day in  
17 office, to inspire more collaboration within our  
18 Executive Branch, and for that I will say kudos  
19 and thank you for your commitment and your  
20 participation.

21 Second, I want to remind all of you that  
22 the work you're doing aligns directly with the

1 President's Strategy for American Innovation that  
2 he unveiled in September 2009. It is a framework  
3 that allows us to acknowledge three basic  
4 principles of how our economic system will produce  
5 sustainable growth and quality jobs. At the  
6 foundation, it's an investment in infrastructure,  
7 people, research-and- development investments, as  
8 well as IT and other robust components of  
9 infrastructure for the 21st century. At the top  
10 of the pyramid, if you will, a commitment that  
11 we're going to catalyze breakthroughs in certain  
12 sections of our economy where we need an  
13 all-hands-on-deck approach, whether it be  
14 unleashing a clean energy economy or bending the  
15 health care cost curve, or tackling the grand  
16 scientific challenges of our day. But in the  
17 middle at the heart of the President's Strategy  
18 for American Innovation is this commitment to  
19 competitive and open markets and it is in this  
20 realm we have seen the portfolio of dialogue that  
21 you'll have today on the role of standards, on the  
22 role of intellectual property, and frankly, in my

1       commitment, the commitment of transparency and  
2       openness as a philosophical view to promote the  
3       system of economic stability and growth. So that  
4       work you'll be doing today is critical to  
5       achieving the long-term economic prospects for the  
6       nation.

7                   Which leads me to my third point and why  
8       I'm so hopeful that your work today will be  
9       helpful to us. We're in active listening mode.  
10       We are organizing the administration to hear your  
11       views and act on them with rigor. So to the  
12       extent that you engage on these very challenging  
13       issues, what is the proper role, how do we strike  
14       the balance acknowledging that intellectual  
15       property has been key to our economic growth --  
16       Dave and Christine both referenced it -- but the  
17       need to ensure that they don't stifle or prohibit  
18       our competitive marketplace? There are going to  
19       be areas in this domain that will require  
20       leadership from the top and your input today will  
21       directly feed our processes in evaluating how this  
22       can be more effective.

1           That is why we've stood up through the  
2       National Science and Technology Council the  
3       presidential vehicle for engaging on these issues,  
4       a specific commitment and focus on issues that  
5       you'll be grappling with today. The one that is  
6       top of mind that you've heard a bunch of times  
7       today is on the role of the government and  
8       standards. As a personal commitment to health  
9       care, we've had a pretty big debate on health care  
10      as you may know in the last year just as an  
11      example, we have a statutory obligation to engage  
12      in standards activities for the exchange of health  
13      care information. An interesting question: As  
14      the policymakers sat down to think about how might  
15      one think of where we need standards and in what  
16      manner can they be used, we asked ourselves a very  
17      basic question, should a patient be entitled to a  
18      copy of his or her medical record? The answer to  
19      that was yes. That became a policy priority. You  
20      turn to the SSOs and say how are you all in  
21      establishing technical standards through your  
22      consensus process and so forth and there have been

1 none. In fact, the industry says wait a minute,  
2 no one has ever asked for a copy of their record  
3 before. But by engaging in a policy discussion, a  
4 strategic debate about what it is as a society  
5 that we want our health system to be, it became a  
6 priority and now a homework assignment that our  
7 voluntary consensus bodies have been working  
8 feverishly to say how might we enable that  
9 particular capacity in our system, and I believe a  
10 great deal of innovation will flow in our health  
11 care system because of it. That's just one little  
12 bitty example of all the various conversations  
13 that we're having.

14 So I thank you. I celebrate Dave,  
15 Christine and Commissioner Ramirez for your  
16 collaboration. I wish you well, and we're  
17 listening for your input. Thank you very much.

18 MS. RAI: With that call to arms I will  
19 convene our first panel which will address the  
20 patent application backlog to which Director  
21 Kappos alluded so eloquently. I would invite our  
22 panelists to come up here so we can get started.

1                   I'm delighted to welcome our  
2           distinguished panel of academics and entrepreneurs  
3           to speak about the challenges that backlog poses  
4           for innovation. As Director Kappos mentioned,  
5           reducing patent pendency at the PTO is his highest  
6           priority. As he also pointed out, however,  
7           different firms of different sizes and in  
8           different technology sectors have different needs  
9           when it comes to processing times. One  
10          examination speed does not necessarily suit all.  
11          Our panel today will tease out some of these  
12          differences and I hope also examine and propose  
13          efficient and creative solutions to the backlog  
14          problem. I would like Erica Mintzer from the  
15          Department of Justice to introduce the various  
16          panelists who will be speaking today.

17                   MS. MINTZER: Thank you, Arti. I'd like  
18          to echo Arti's remarks and extend my thanks to all  
19          of our panelists for joining us here today. I'm  
20          just going to try to briefly introduce our  
21          speakers in the order in which they'll be  
22          presenting. You have their full bios. If you

1 haven't grabbed one, they are available on the  
2 tables out there and I know I'd personally rather  
3 hear what they have to say than what I have to say  
4 so I'll try to be brief.

5 Our first two speakers, Dr. Joshua  
6 Makower and Richard Ogawa, will be discussing  
7 their firsthand experience with backlog issues.  
8 They'll present their views from the frontline  
9 regarding the importance of patents to their  
10 clients and businesses, the role of IP in securing  
11 funding and the ultimate effects of backlog. Dr.  
12 Makower who I've learned is a patent holder  
13 himself is the CEO and founder of ExploraMed  
14 Development, a medical device incubator. He is  
15 also a venture partner with New Enterprise  
16 Associates focusing primarily on medical devices  
17 and pharmaceutical investments. Next up will be  
18 Richard Ogawa who is an IP attorney focusing on  
19 clients in emerging high-tech industries and in  
20 particular green companies. Mr. Ogawa has  
21 prosecuted hundreds of U.S. patents and as someone  
22 who regularly has to report to anxious clients on

1 the status of pending applications, I'm sure that  
2 he'll have an interesting perspective on these  
3 issues and be searching for a solution as much as  
4 anyone.

5 Our next presenter is Scott Stern. Dr.  
6 Stern is a Professor at the Kellogg School of  
7 Management, Northwestern University, and Visiting  
8 Professor at MIT's Sloan School of Management. He  
9 has published numerous articles on innovation and  
10 intellectual property and has studied the impact  
11 of uncertain IP rights and the consequences of  
12 delay. And I understand to the extent there's  
13 going to be any math today, we can look to Dr.  
14 Stern to provide that.

15 Michael Meurer is a Professor at Boston  
16 University School of Law where he has taught  
17 courses in among other things patent and public  
18 policy and has served as an expert in patent  
19 licensing. He is the co-author of the book Patent  
20 Failure, which understood an empirical evaluation  
21 of the patent system's performance focusing on  
22 issues of notice and uncertain boundaries. I

1 think the title of the book explains and gives  
2 some obvious reasons as to why Professor Meurer is  
3 here with us today.

4 Another obvious presenter is John Duffy.  
5 Professor Duffy joined the faculty of The George  
6 Washington Law School in 2003. He's written  
7 extensively on patent law issues including a 2009  
8 article he co-authored in the University of  
9 Pennsylvania Law Review titled "Ending the Patent  
10 Monopoly" which argues for further  
11 demonopolization of patent examination and offers  
12 some alternative structures, again, another  
13 obvious choice. With that said, I think, we're in  
14 for a lively discussion and an important one at  
15 that and I will turn over the microphone. Thank  
16 you.

17 MS. RAI: One housekeeping point. If  
18 anyone needs a sign language interpreter, please  
19 let me know.

20 DR. MAKOWER: I'm Josh Makower. I'm a  
21 physician, inventor, entrepreneur. I have 77  
22 issued patents and over 100 in the backlog at this

1 point in time. This is a little picture of my  
2 career. I've started six independent medical  
3 device companies. I co-founded the By Design  
4 Innovation Program at Stanford where we train  
5 young innovators in med- tech on how to identify  
6 clinical needs and solve problems and that's been  
7 a real focus of my life in not only doing but  
8 teaching this effort to advance the state of  
9 health care for human beings on the planet, so it's  
10 been a good exercise. Thank you for inviting me  
11 here today. I really appreciate it.

12 When I sat down and thought about the  
13 experiences that I've had with the backlog and the  
14 impact that it's had on my personal experiences in  
15 inventing medical technologies, I kind of saw the  
16 following scenarios, albeit somewhat simple. I  
17 think, we're all used to as inventors a zone of  
18 uncertainty of a certain duration until the first  
19 patent publishes and that is a nice defined period  
20 of time during which since we usually invent  
21 things that are really kind of novel, at least we  
22 think so, we are always waiting to see in that

1 time period after we file. The impact of the  
2 extended delay until there is certainty certainly  
3 has had an impact on the way that we think about  
4 and execute on the inventions that we're trying to  
5 create and whether we invent at all. In fact, if  
6 you look at our track record, we invent, we rarely  
7 even file in areas where we think that there is an  
8 unlikelihood that we'll actually prevail with an  
9 issued patent. So when there is uncertainty, it  
10 actually prevents us from even putting something  
11 into play.

12 As you can see from this chart, I've  
13 outlined some different scenarios. Of course, the  
14 first to file goes in and then there's a  
15 substantial delay during which time one tries to  
16 raise money and faces all sorts of questions on  
17 why haven't you been given a patent yet and so on.  
18 Thankfully we're in a unique situation where we  
19 have partnered with a venture firm, New Enterprise  
20 Associates, that really has helped support our  
21 development and has a lot of confidence and faith  
22 in our judgment and the judgment of our patent

1 counsel to identify what might be potentially  
2 patentable even though we haven't been issued  
3 anything yet. So we've been able to execute in  
4 our business, but as I'll show you later, we do  
5 have some substantial delays in getting some  
6 certainty.

7           The more interesting experiences that  
8 we've had are watching in some cases competitors  
9 join but join with filings that at least we feel  
10 are clearly destined to run into conflict with our  
11 own, yet we have no ability to be sure of that and  
12 neither do they so they enter this zone of  
13 uncertainty at tremendous risk. And that's very  
14 unfortunate especially in health care because  
15 there are limited dollars. We already face  
16 substantial challenges in advancing these  
17 technologies and to imagine that these dollars  
18 could be spent elsewhere where they might more  
19 fruitfully oriented toward developing devices and  
20 technology to advance human health has an even  
21 more significant impact than the commercial impact  
22 that they would face if they are then unable to

1 practice their inventions.

2 More typically we see the bottom  
3 scenario where either we decide we're not going to  
4 enter just because it just looks a little messy  
5 and we don't really know where the ball is going  
6 to land, or we float the idea to our venture  
7 backers and they don't get confident that we can  
8 actually execute on a reasonable business with  
9 free and clear protection so they don't invest at  
10 all. Those are the ones that are very difficult  
11 to quantify because they just never exist in the  
12 first place.

13 In our own experience, here are the  
14 three companies that I have direct involvement  
15 with and you can see for yourself some of the  
16 delays that we continue to experience with respect  
17 to getting some certainty with regard to the  
18 issuances of patents and all of them relate to  
19 significant disease states in the U.S. and the  
20 world.

21 Lastly, I want to point out some of the  
22 unique aspects of the med-tech area and why

1 patents are so important for us and also why  
2 subtle improvements or novel steps really can have  
3 tremendous value. Usually these novel steps are  
4 not recognizable until substantial research has  
5 been done and a substantial amount of investment  
6 has been done. Thus we do this at risk and we  
7 take tremendous risk already with the ever  
8 increasingly difficult regulatory processes that  
9 we go through on the FDA side and then the very  
10 difficult reimbursement processes that we face  
11 even after our technologies are approved to be  
12 commercially marketed. These incremental novel  
13 steps which can deliver dramatic and exceptionally  
14 powerful improvements are really the makeup of  
15 what med-tech is. Yet because they are  
16 incremental and novel, it is sometimes difficult  
17 without getting confidence from the Patent Office  
18 exactly what rights we will have and what rights  
19 we'll be able to protect.

20 So, I think, in summary med-tech deeply  
21 needs patents. We would enjoy the opportunity to  
22 have those patents issued quickly so that there

1        would be certainty and that the dollars could be  
2        more effectively used and would probably be better  
3        off for human health. Thank you.

4                MR. OGAWA: I'll go ahead and speak. I  
5        always have problems with high-tech gadgets. Here  
6        is my new iPad and I was trying to figure out how  
7        to turn it on recently.

8                My name is Richard Ogawa and I'm a  
9        patent attorney. I've worked in the patent space  
10       for probably about 18 years now. I started out  
11       doing a lot of semiconductors and it went into  
12       networking and high-tech internet, and then most  
13       recently it's been clean tech. I just want to  
14       tell everybody that I want to thank everybody for  
15       allowing me to speak today and I want to say that,  
16       I think, I have one of the best jobs in the world.  
17       It's a fun job. I get to work with the top  
18       venture capitalists. I work with -- Ventures and  
19       a number of his companies. I work with Kleiner  
20       Perkins. I work Shuji Nakamura. He's the guy  
21       that invented the blue LED. There's a book  
22       written about him that's called Brilliant. One of

1       these days our vision is all the lights around  
2       here will be LEDs and there will be the Shuji  
3       bulbs instead of the Edison bulbs. So this whole  
4       thing we believe it's going to change.

5               I work with lighting companies now. I  
6       have some battery companies. I work with solar  
7       companies, concentrated solar, thermal solar and  
8       thin film solar. I work with a guy named Bob  
9       Wedig. He's the father of the sigs module. I  
10      don't know if anybody has heard of sigs, but  
11      basically Bob believes that one day the world will  
12      be covered with sigs and most of our electricity  
13      will come from sigs and it's going to change the  
14      world, so I want to be a part of that.

15             I used to be a partner at this big  
16      patent law firm. I left. I went out on my own.  
17      There's this company that's called Ogawa P.C.  
18      That's me. It's called P.C. Somebody says why  
19      isn't it LLP? I said I need some partners for  
20      LLP. I couldn't get anybody else to come with me  
21      at first. Now I have about 10 people that I work  
22      with.

1 I've filed probably since about 2005 to  
2 now maybe about 300 plus patents. It was funny.  
3 When Stew called me he asked me to come and speak  
4 and he said how are your companies doing? Is this  
5 affecting funding? I said that's an interesting  
6 question because I'm right now in the middle of  
7 some big fundings, a couple \$50 million fundings.  
8 I got \$100 million funding that maybe there's  
9 another 400- or \$500 million in the pipe. And I  
10 worked exclusively with these companies. I gave  
11 up my career as a partner at Townsend. I filed  
12 all these patents. And the one question everybody  
13 asks is how many of these have you issued? I said  
14 that's an interesting question. I think, I issued  
15 maybe less than five. Maybe there's a few. I  
16 said there's this backlog issue at the Patent  
17 Office. It turns out that there's this guy that  
18 called me earlier today. He wants me to go to  
19 Washington, D.C., to talk about it. So this is  
20 not just affecting these companies, it's across  
21 the board, so don't worry. Nobody has a  
22 competitive advantage against you guys. That's

1 kind of the way I addressed it.

2 I wanted to talk a little bit about  
3 clean tech in particular. I worked in high tech.  
4 I want to talk a little bit about the difference  
5 between clean tech and high tech. First of all,  
6 this is my view. I believe patents are more  
7 important in clean tech. The reason for that is a  
8 lot of the products have a long life. An example  
9 is a solar panel. The expectation is that it will  
10 last 25 years. I don't even think the patents  
11 last that long. But the solar panel has to last  
12 that long by laws and regulations, so that's  
13 important. Similarly for LEDs, they last a long  
14 time, too.

15 A lot of these products also have a long  
16 development and manufacturing cycle. It takes a  
17 lot of time to actually develop the product. A  
18 lot of the products are material-centric. They're  
19 not products like this iPod where it's a  
20 combination of software and a lot of preexisting  
21 chips and components. I just want to tell you  
22 like this iPod, for example, this is the second

1 version already. I had the first version. How  
2 many people, by the way, have one of these things?  
3 This is my second one. I think, it was launched a  
4 few months ago and then after that they came out  
5 with a 3G version so I bought that one, so I'm  
6 kind of a sucker for these things. The product  
7 cycle for clean tech is very long.

8           The other thing about clean tech is it's  
9 really hard to make money in this space. It takes  
10 a lot of investment capital, and, I think, in  
11 Silicon Valley we forgot about how difficult it is  
12 to really build something like brick-and-mortar  
13 type technology. So what happens is you find a  
14 company. Typically it's venture capitalists.  
15 They're willing to take the risk. You develop  
16 some sort of prototype product that looks like you  
17 can manufacture it. So most of the companies I'm  
18 working with now, we have some type of prototype  
19 product and we're really happy about that. But  
20 then the next step is we have to go out and raise  
21 another 50- or \$100 million to build this plant.  
22 So once you build the plant, then you can go into

1 production. In high tech in the Silicon Valley we  
2 outsourced a lot of that stuff for the last 20  
3 years and we forgot how to do that, but we're  
4 relearning how to do that.

5 The people who invest to build these  
6 plants, you need some government loans, you need  
7 help from the state and private equity funds. All  
8 of these entities are very risk averse. The first  
9 question they always ask is how many patents do  
10 you have and I said we've filed a lot of patents  
11 but there's this backlog issue again. By the way,  
12 it's sometimes not a good idea to issue these  
13 patents right away, so we're going to keep this  
14 stuff as a trade secret. So I always have to come  
15 up with good strategies to try to overcome this  
16 kind of backlog issue. Obviously it's better to  
17 have patents in place.

18 The other interesting thing about this  
19 space is the obviousness bar. In the high-tech  
20 space, a lot of the new technologies were really  
21 new. There was no such thing as a browser. The  
22 internet was something that developed. It had

1       been in its infancy but it really exploded. There  
2       are new things. In the energy space, solar has  
3       been around for a long time. It's a -- junction.  
4       There's a lot of prior art in this area. The  
5       cases that I actually got back from solar, I get  
6       all these obviousness rejections. We try to  
7       explain to the Patent Office this is really an  
8       unexpected benefit and basically slight variations  
9       in efficiency over a long time. Like 25 years is  
10      a big deal. But that's just something that is  
11      just more difficult to overcome right now.

12                The bottom line is with clean tech it's  
13      important to get patents. I'm here today. I flew  
14      here. I paid for this trip myself. I represent  
15      myself. I represent my companies. We need  
16      patents, so I'm in the trenches and I need your  
17      help.

18                The next part I want to talk about was  
19      expediting a little bit. So in the past I'll call  
20      them the old rules. I've expedited a number of  
21      cases under the old rules. This was pre-August  
22      2006. The first company that I represented was

1        called Yield Up and typically there's a scenario  
2        like this. Yield Up got sued. They had to raise  
3        more funds. They didn't have a patent. They were  
4        launching a product. So we filed a petition. I  
5        remember I went to Crystal City and we visited the  
6        examiner. I showed them the product and all of a  
7        sudden we got an allowed case, got funding and the  
8        company went IPO, hired people, success story. In  
9        August 2006, the rules changed. At one time there  
10       were all these different classifications that you  
11       could petition under. In August 2006, it was kind  
12       of like you had to do the work yourself and then  
13       file the petition. The first petition I filed, I  
14       think, it was the first one that our firm filed,  
15       it was at Townsend & Townsend I filed a lot of  
16       these things. Probably within about 28 days I got  
17       a notice of allowance so I said this system worked  
18       great. I tried another one and it didn't work.  
19       We tried another one and it didn't work. Then all  
20       of a sudden we learned that if you did get a  
21       rejection, you had to redo the search and nobody  
22       was willing to file these things anymore.

1           The third iteration of expediting was  
2       this Green Technology Pilot Program. When I first  
3       heard of this I was really optimistic. I got a  
4       number of our clients that called me that said,  
5       Richard, I need for you to expedite under this  
6       program and I said sure. We can do it. I'll  
7       write up the petition. We'll file it today. So I  
8       read the rule after I explained that to the client  
9       and I learned that there are only certain  
10      classifications that were eligible. Probably out  
11      of a couple hundred cases, hardly none of the  
12      cases qualified under this rule, and the case that  
13      did qualify I remember it very vividly, it was on  
14      a temperature profile for an oven and this case I  
15      purposely filed with a non-publication request  
16      because we wanted to keep it as a trade secret so  
17      it wasn't something that we really wanted to  
18      expedite. This Monday I visited the Patent  
19      Office. I have some people there I know. I  
20      learned that the categories of limitations have  
21      been lifted. So I got back on the phone and I'm  
22      hopeful that under these new rules that I'll be

1       able to get some case expedited. I just wanted to  
2       kind of talk about my experience and I'll allow  
3       the next speaker to take over at this point.

4               MR. STERN: I'm Scott Stern and I am at  
5       Kellogg and visiting at MIT and moving there  
6       permanently. What I want to talk about in some  
7       sense builds directly off what I thought were the  
8       very interesting kind of setting the table kinds  
9       of presentations of Josh and Richard and that's  
10      really to say does patent grant delay really  
11      matter?

12             I think it's really important to  
13      recognize two pieces of that. The first is that  
14      by and large, I think, a very significant portion  
15      of the academic literature and a lot of the legal  
16      literature as well and, I think, a certain amount  
17      of policy literature until very recently have put  
18      patent pendency issues in this category of it's  
19      just an administrative detail. On the other hand,  
20      when you talk to, I think, entrepreneurs and  
21      people on the ground, when you talk to attorneys,  
22      when you talk to people who are actually having to

1 practice the art, issues of delay are very upper  
2 most in their minds. So let me first frame that  
3 issue, I think, a little bit more.

4 In terms of administrative delay, the  
5 way for example that economists might think about  
6 that and, I think, a lot of lawyers would say  
7 delay is probably a problem except it's not that  
8 big of a problem because surely two parties that  
9 are involved in say for example trying to get  
10 additional financing or for example coming up with  
11 some licensing agreement or some strategic  
12 alliance in which the intellectual property can  
13 become impinged, they can look at your documents  
14 that you've received from the PTO up to that point  
15 and they can say we can contract around this and  
16 we know the patents will eventually issue and all  
17 will be for the best. That's one view you could  
18 have of the situation. I think, that a certain  
19 degree of thinking within some of the policy  
20 circles and, I think, in the academic literature  
21 actually have that view in mind when they say this  
22 is just an administrative detail.

1           The second side of it though says what  
2 happens if the fact that you don't your rights  
3 clarified means that you can't come to those types  
4 of agreements? That you can't work with potential  
5 financiers? You can't work with potential  
6 commercialization partners? So let me just take  
7 one more slide and I'm going to try to do this all  
8 by myself. Why can't just regular contracting  
9 kinds of efficiencies come into play here? It  
10 turns out that when you think about it, and, I  
11 think, this was reflected both in Josh and  
12 Richard's remarks, there's just a lot of reasons  
13 why the fact that you don't yet have your rights  
14 clarified at least as much as they will ever get  
15 clarified under the grant system ultimately  
16 matters. The first is that if you start revealing  
17 the technical details of a technology to a  
18 potential partner or in some cases even just to a  
19 financier, to a venture capitalist, you might  
20 worry that your patent will ultimately be decided  
21 narrowly and now you've just given away the store.  
22 That idea can be stolen. Maybe even more broadly,

1 one thing that, I think, there's an emerging  
2 amount of evidence for is that particularly when  
3 we think about the commercialization process, a  
4 lot of the real meat is not actually in the very  
5 narrow stuff that's patented, but in coming up  
6 with a licensing deal in which you use the patent  
7 as a hinge to transfer a lot of knowledge between  
8 say an early stage biotech company and a more  
9 established pharma firm or one of our Silicon  
10 Valley clean energy companies and a really  
11 established downstream player. Your incentives to  
12 reveal and work with and sort of work with your  
13 partners in a productive way are going to be much  
14 lower if there's a potential that the value you're  
15 ultimately going to get from the patent is much  
16 lower.

17 Thirdly, and this is kind of the  
18 converse side of this, if the knowledge is  
19 disclosed in other mechanisms, and in particular  
20 let's say there are scientific discoveries going  
21 on, another thing that can happen is that people  
22 can freely use your invention during the pre-grant

1 period. The rules in Europe are a little bit  
2 different on that, there are some limitations  
3 that, but as a practical matter, and I look to you  
4 guys, but almost everyone I've ever talked to says  
5 as a practical matter, the very narrow exceptions  
6 for practicing during the pre-grant period are  
7 very low. And moreover, in the scientific  
8 community, they're essentially nil, and I'll come  
9 back to that in just a second.

10 So in some sense the question that we  
11 try to raise here is, is there just this kind of  
12 administrative that smart people, we pay Richard a  
13 little bit of money so he can buy two iPads a  
14 month apparently, but he makes the problem go  
15 away, that's why he gets the two iPads? Or does  
16 it really have real-world consequences for  
17 efficiency and innovation and how would you show  
18 it? Let me be clear that I was delighted when  
19 Arti and Sue and others asked me to participate in  
20 this panel. I have always been a big fan of  
21 studying patent grant delay and my time has come.  
22 Here you are.

1           So what we did is over the last several  
2       years I've used patent grant delay as this kind of  
3       funny institutional detail that allows you to  
4       examine the causal impact of the patent system on  
5       real-world outcomes. In the study that's very  
6       briefly described in this chart with Joshua Ganz  
7       and David Chu, what we did is we looked at 200  
8       startup innovators all of whom ultimately licensed  
9       their technology. The question is when does the  
10      license actually occur? Now we could imagine that  
11      from a productive efficiency consideration  
12      particularly when we're looking at really small,  
13      tiny companies, basically IP is the only asset.  
14      Earlier licensing in general, not in every single  
15      case, but earlier licensing tends to be better.  
16      Of course, if they wait until the patent is  
17      granted, that's going to enhance their bargaining  
18      power, facilitate the kind of contracting I talked  
19      about and lead to a better outcome for the  
20      innovator. So what do they do? Do they choose  
21      the more productive efficiency consideration or  
22      the thing that maximizes their bargaining power?

1       What do we find?

2                   Looking at over 200 different licenses  
3       linked each of them to a kind of core patent, what  
4       we found is that the rate at which licensing  
5       occurs more than doubles in the one year after the  
6       notice of patent allowance. That's the letter you  
7       get from the Patent Office saying here you are.  
8       This is what's ultimately going to be issued in  
9       the grant. Once that notice of patent allowance  
10      is sent to them, then one year after that a  
11      majority of the licensing in the sample occurs. I  
12      would be happy to go over some of the technical  
13      details around this. That's where the math lesson  
14      comes in. But instead what I'm going to do is  
15      focus on the following. What we really  
16      demonstrate in here is there seems to be a causal  
17      impact of the patent grant delay on the timing of  
18      the licensing of startup innovation from startup  
19      to commercialization partner.

20                   In another study, this one with Fiona  
21      Murray, my new colleague at MIT, Fiona and I  
22      looked at about 260 papers that that were

1 published in Nature Biotech. That's kind of a  
2 journal that really is at the intersection between  
3 science and technology in the area of biotech. We  
4 looked at 260 of those papers and for about half  
5 of them we were able to identify that for that  
6 scientific paper there was an accompanying patent  
7 that was the same idea, a patent paper pair. Then  
8 what we looked at is we looked at how did the  
9 citation rate to the scientific paper change as a  
10 consequence of the patent grant? Believe it or  
11 not, this is a world where universities and the  
12 scientific community is very rapid. They get  
13 publication done in the life sciences in 4 or 5  
14 months. Somehow a bunch of economists, lawyers  
15 and policymakers take a little bit longer to do  
16 things here, so the accompanying patents are  
17 taking years to issue. What we demonstrated was  
18 that there seemed to be a significant reduction in  
19 the follow-on scientific research after the patent  
20 was granted and that relates to -- that Arti and  
21 others have participated in in other ideas. But  
22 what that also shows is there really does seem to

1 be a period during the pre-grant period where if  
2 the knowledge is disclosed through other  
3 mechanisms, here through scientific publication,  
4 you really do get an increase amount of use that  
5 doesn't redound back to the inventor and that  
6 ultimately affects innovation incentives.

7 In my very brief time which I'm sure  
8 I've already overdone, what I want to do then is  
9 emphasize three things. First, patent grant delay  
10 matters. It's not just a series of stories from  
11 practitioners. If we go to large-scale  
12 statistical studies, when we think about the  
13 underlying reasons, the fact that you're trading  
14 in knowledge both from a theoretical and more  
15 rigorous empirical perspective you end with a  
16 fairly compelling conclusion around the impact of  
17 patent grant delay.

18 Secondly, this is particularly important  
19 because it's not as if patent grant is the final  
20 word. What you have is a system that is a large  
21 administrative structure that's attempting simply  
22 to start a process by which other people come in,

1       they think about whether or not they think your  
2       rights are valid, whether or not they want to sue  
3       you, whatever the other issues are, where you can  
4       use your patent in the context of antitrust  
5       proceedings, so on and so forth. You can assert  
6       that to justify certain types of conduct. And the  
7       fact that there are very significant delays of the  
8       order of several years for technologies, for  
9       companies who have cash-flows and burn rates that  
10      only put them in business for 9 months to a year  
11      at a time, means that we are ultimately ending up  
12      with a much lower level of innovative productivity  
13      and efficiency in commercialization as a result of  
14      the operation of the patent system on this  
15      particular dimension. Thank you.

16               MR. MEURER: My name is Mike Meurer and  
17      I have a mnemonic for you, it rhymes with lawyer  
18      conveniently. Like Richard, I love my job.  
19      Richard gets to meet lots of interesting inventors  
20      and contribute to commercialization of clean  
21      technology. On the other hand, I sit in my office  
22      and brood about problems with the patent system

1 all day, but I do love that and I want to share  
2 some of my brooding with you for the next few  
3 minutes.

4 I'm going to try to do four things. I  
5 want to talk about why the backlog harms  
6 innovators, I want to talk about what the cause of  
7 the backlog is, I'll talk a little bit about  
8 solutions and then finally I want to talk about  
9 what the impact of these solutions might be, what  
10 research we need to do to better assess the likely  
11 consequence of various reforms to address the  
12 backlog problem.

13 Christine Varney drew a distinction  
14 that's important for my purposes. We've heard  
15 from the first three speakers about why the  
16 backlog harms inventors. I want to talk about why  
17 the backlog harms innovators. I'm going to make  
18 the case that innovators are harmed by the backlog  
19 because it contributes to -- or it degrades the  
20 information about the existence and scope of  
21 patent rights. That's a theme that I explore  
22 fully in this book with Jim Bessen called Patent

1 Failure. We argue that the current patent system  
2 poses a challenge for innovators because patents  
3 on the whole don't perform very well as property.  
4 Innovators will invent and get patents that  
5 provide a subsidy which is helpful, but innovators  
6 also commercialize new technology and when they  
7 commercialize that new technology they will be  
8 exposed to patent lawsuits. They're exposed to  
9 patent lawsuits because the stock of patents in  
10 force does not communicate boundary information  
11 very well. That makes it difficult for innovators  
12 to design around the existing stock of patents if  
13 that was their choice or it also makes it  
14 difficult for them to engage in ex ante licensing.  
15 As a result, most of the cost of patent litigation  
16 falls in advertent infringers. In the book,  
17 Bessen and I provide lots of different kinds of  
18 evidence that that basic claim is correct, so let  
19 me quickly give you some examples.

20 Number one, outside of chem and pharma,  
21 there's very little investment in freedom to  
22 operate.

1           Number two, in litigated patent cases  
2       for which an opinion is available, there is very  
3       little evidence of copying.

4           Number three, if I commercialize  
5       software, I can purchase insurance against the  
6       risk of a trade secret or copyright lawsuit. I  
7       cannot get such insurance against a patent  
8       lawsuit. Similarly, if I'm a patent owner I can't  
9       get insurance to help me enforce my rights.

10       People in the insurance industry have tried to  
11       offer this sort of insurance but they find that  
12       this market is so unpredictable they can't really  
13       effectively underwrite.

14           Finally, regression analysis that Bessen  
15       and I have done shows that we control for a  
16       variety of factors. The hazard of being a  
17       defendant in a patent lawsuit grows with your  
18       investment in research and development. We  
19       interpret this finding as best explained by a kind  
20       of exposure effect. The more you invest in R&D  
21       the more you invent, the more you innovate the  
22       more you will inadvertently infringe.

1                   Why does the flood of patent  
2       applications and the corresponding backlog  
3       aggravate this notice problem? Three reasons.  
4       First, it further degrades the incentive to  
5       conduct freedom to operate searches. Second, it  
6       delays determination of what final claim language  
7       will look like. And third, the very large number  
8       of patents that eventually come out of the  
9       pipeline again makes search difficult.

10                  Number two, how did we get this problem  
11       of this backlog? Is it inefficiency at the PTO?  
12       Perhaps. I don't think there's much evidence  
13       pointing in that direction. I think, it's quite  
14       clear though that there are too many patent  
15       applications and too many issued patents. There's  
16       too much work to be done in relationship to the  
17       amount of invention. I don't have good evidence  
18       that directly shows that to be the case, but there  
19       are a couple of reasons why economists would think  
20       that is true. There's a serious pair of  
21       externality problems associated with patenting.  
22       When I say "externality," you should think perhaps

1 of something like CO2 emissions. Activities that  
2 result in CO2 emissions are generally good,  
3 socially desirable, but they also generally create  
4 some harm that we'd like to control.

5 The harm that's created by patenting is,  
6 number one, there's a kind of crowding in the PTO.  
7 People like Marco and Preger have talked about  
8 this very simple problem that when I apply for a  
9 patent I don't pay any attention to the delay  
10 costs that that imposes on other people. That's  
11 an external cost that leads me to do too much  
12 patenting.

13 I think more important than that, cost  
14 is the notice externality, that my application and  
15 my patent contributes to the stock of patents in  
16 force which causes a degradation in freedom to  
17 operate investment and a general decline in the  
18 notice function of the patent system, so there's  
19 an external cost imposed on innovators, on third  
20 parties, and perhaps you could call second parties  
21 the other innovators who are trying to get their  
22 patents. Economists respond to externalities like

1       that by trying to make the person who's applying  
2       for a patent to bear not only their private costs  
3       but also social costs.

4               That leads to number three. What sort  
5       of solutions would we take a look to? In the case  
6       of CO2 emissions we talk about cap and trade.  
7       That's been suggested with regard to patents but  
8       not too seriously so far. More realistically for  
9       both CO2 and patents is some kind of tax, a carbon  
10      tax on CO2 emissions or some kind of tax on  
11      patenting using economics jargon rather than  
12      speaking like a lawyer.

13              How do we accomplish that? One direct  
14      way would be higher fees. There seems to be  
15      evidence that there's quite a bit of  
16      responsiveness on the part of applicants to fees.  
17      That seems likely to be true because the  
18      distribution of patent value is very skewed.  
19      There are lots of relatively low-value patents out  
20      there and the applicants might be responsive to  
21      movement in fees. That doesn't have to be initial  
22      fees. It could be renewal fees as well. That

1        might help deal with some issues like liquidity  
2        issues for startups. There is no reason we  
3        couldn't preserve a two-tier scheme as well. For  
4        small entities maybe the increase wouldn't be as  
5        rapid or as large as it would be for large  
6        entities. I think, it's important to do that but  
7        I want to move to three other solutions that have  
8        the effect of raising cost but don't seem quite as  
9        obvious as solutions.

10                One thing I like very much is increasing  
11        prosecution cost. I would to make the life of  
12        patent lawyers a little bit more difficult, making  
13        Richard's job a little bit less pleasant. I  
14        think, what patent prosecutors need to do more of  
15        is more of the work. If you think about  
16        examination as a partnership between patent  
17        applicants or patent attorneys and patent  
18        examiners, I think, way too much of the burden is  
19        put on the examiner. We need to move more of the  
20        burden to the patent applicant. We could require  
21        something like disclosure of source code in  
22        software patents. A strong written description

1 requirement which the federal circuit has given us  
2 is a great thing to the extent that it leads to  
3 disclosure of more embodiments. I think, we  
4 should impose a burden on applicants to parse  
5 claim language perhaps from the broadest claim or  
6 some representative claims in their applications  
7 and perhaps also annotate prior art that they  
8 disclose.

9 Third. Categorical exclusions are a  
10 great thing. Business methods, bye-bye. That's  
11 one way to deal with the patent application  
12 explosion, to move from the domain from what is  
13 patentable very abstract inventions which really  
14 cannot be effectively propertized.

15 Finally, number four, we should limit  
16 remedies when the infringed claim did not appear  
17 originally in the application. We should think  
18 about the lesson that is provided to us by reissue  
19 practice. When you have a broadening claim in a  
20 reissue there is an intervening rights doctrine  
21 that prevents people who are surprised in some way  
22 from the expanded scope of the property right. We

1 don't have to mimic that but we should take that  
2 as guidance about what we need to do to minimize  
3 the negative impact on inadvertent infringers.

4 To conclude, let me talk a little bit  
5 about the possible impact of these reforms to  
6 reduce the backlog. Many patent attorneys I've  
7 spoke to claim that the backlog is not that much  
8 of a problem for third parties. Why not? Number  
9 one, most applications are published.

10 Number two, enabling disclosures are  
11 provided in that initial filing, so the assertion  
12 goes that a good patent attorney will look at that  
13 disclosure and tell the world what the broadest  
14 scope of valid claims might be.

15 Number three, we have the initial claims  
16 and they provide some guidance. I'm skeptical,  
17 you can tell by my tone, but those claims I  
18 suppose are plausible at least in chem-pharma  
19 where you have high-quality disclosures and  
20 clearer claim language. Indeed, pharmaceutical  
21 firms repeatedly investigate the stock of existing  
22 patents looking to do ex ante licensing, but

1       probably the story I've just told is not true in  
2       other industries or other technologies. The punch  
3       line or one punch line in the Bessen and Meurer  
4       book is that outside of chem-pharma the patent  
5       system in the U.S. today is imposing a tax on  
6       innovation. It's imposing a tax because of the  
7       cost of defending against patent lawsuits which is  
8       borne by innovators and which amounts to a larger  
9       payment than whatever payments they receive  
10      because they are patent owners. So, I think, we  
11      need to pay very much attention as we reform the  
12      patent system to deal with backlog to think about  
13      the impact of backlog on innovators.

14               MR. DUFFY: Thank you very much for  
15      inviting me, Arti and the PTO management. I'm  
16      going to talk today a little bit about a paper  
17      that was mentioned in my introduction. It's  
18      called "Ending the Patenting Monopoly." That's  
19      not ending patenting which might be an alternative  
20      suggestion. That's ending the patenting monopoly.  
21      What I'm going to suggest is that currently there  
22      is only one place in the entire United States you

1 can go to get a patent examination and it's here  
2 and that's a monopoly. This building and this  
3 entity behaves about as well as many monopolists.  
4 It gives you poor, slow service with a large  
5 bureaucracy. So I'm going to suggest that maybe  
6 there's a different way and that's going to be a  
7 little radical but that's okay because I'm an  
8 academic and I've got tenure.

9 I'm going to start with a very simple  
10 point about a little history lessons or a little  
11 lesson about a nation that was facing a patent  
12 system that was widely viewed as broken so that  
13 there were legitimate businesses that claimed to  
14 Congress and to other entities that they were  
15 being held up by patents of questionable validity,  
16 things that were clearly invalid, but nonetheless  
17 they'd have to litigate to get invalid and they  
18 just sort of would pay a fee as a nuisance fee.  
19 And inventors were also complaining about the  
20 system. They were complaining about the system.  
21 Of course if lots of other people have patents  
22 that are bogus and no good, then having a patent

1 doesn't really tell the market very much. It  
2 doesn't tell investors very much, it doesn't tell  
3 accused infringers very much about whether this is  
4 worthwhile or not. And this nation was the United  
5 States and the years were the 1820s to the early  
6 1830s, and this was the patent system in crisis  
7 and there were many calls to Congress to fix it.

8           Congress did something in 1836, that's  
9 the end of the Jacksonian era in American history,  
10 that was really radical. Indeed, the English  
11 thought we were crazy for decades later and this  
12 was an impossible thing to do. We created a large  
13 centralized bureaucracy that would examine all  
14 innovations and all patents. This was  
15 cutting-edge administrative law. It was very  
16 radical and it was very uncertain of its success.  
17 Prior attempts to achieve success had always  
18 failed including in our own nation. So the idea  
19 of a large centralized bureaucracy was dangerous,  
20 it was risky and it was cutting edge.

21           Later in the late 19th century it would  
22 become sort of the way government was run in many

1 areas of law in many other nations, including  
2 European nations, and the idea of having a large  
3 patent bureaucracy became common throughout the  
4 developed world. Also the idea of having large,  
5 centralized bureaucracies in the 19th century  
6 really was sort of an administrative revolution  
7 that continued into the early 20th century.

8 My major thesis is that it is possible  
9 that the cutting-edge administrative structure of  
10 the early 19th century just might not be optimal  
11 for the 21st century. And that is my biggest  
12 point, that if you remember nothing else from this  
13 you should think about that.

14 There are two major reasons to think  
15 that is true. First of all, the cost of  
16 communications has fallen dramatically. One  
17 reason to centralize an examining corps in  
18 Washington, D.C. or somewhere else, in Europe or  
19 in a nation- state, was that having a library was  
20 a very large and expensive project, especially a  
21 library of hopefully all prior art or even just  
22 all patents. That was very expensive. Today that

1 is a cost of essentially zero dollars. Thanks to  
2 the PTO I can now get and search and frequently do  
3 almost on a daily basis every single issued patent  
4 that the United States has ever issued. I can  
5 pull them up at will, and Lexis-Nexis will allow  
6 me to do tech searches as well.

7 The second thing that has changed  
8 dramatically is the growth of international trade.  
9 Even just 45 years ago, the percentage of  
10 international patents that this office got as a  
11 percentage of its total workload was about 23  
12 percent. In 2008, the number of international  
13 patents rose for the first time over 50 percent,  
14 so that is a more than doubling in the past  
15 half-century and that is not going to change.  
16 It's not because the United States has become a  
17 less innovative nation. It's just that other  
18 nations are becoming developed, sophisticated  
19 nations and we should not expect that a nation  
20 that has only about 5 percent of the world's  
21 population is going to produce more than 50  
22 percent of the world's innovations. And also we

1 can expect that people who want patent rights in  
2 the United States probably want them in other  
3 nations as well or innovators in China or Europe  
4 or Japan are going to want patent rights in the  
5 United States as well as other nations.

6 That major change, those two major  
7 changes, the falling cost of communication and the  
8 rise in international trade, lead to a serious  
9 problem of international duplication in patent  
10 examination so that if you're an innovator, most  
11 innovators are going to want some patent rights in  
12 more than one country and that means you're paying  
13 not for one examination, one high-quality  
14 examination that you might even be willing to pay  
15 a little bit more for, but you're paying for  
16 multiple examinations. Literally, patent  
17 examination throughout the world is an example of  
18 reduplicating the wheel throughout the globe.

19 The alternative which I suggest is  
20 demonopolization of the patent examination  
21 function and this is something, I think, not  
22 something that is just an academic idea, this is

1 something that is actually happening. It's  
2 happening not so much in the United States, but  
3 it's happening first in smaller nations that are  
4 feeling this pressure that they simply cannot as a  
5 matter of numbers examine all the world's  
6 innovations in order to grant patents.

7 An excellent example of this is the  
8 State of Israel, which, of course, is a small  
9 country, but a highly developed country with a lot  
10 of innovators in the country and a highly  
11 developed economy. In Israel you can go to any  
12 one of 13 patent offices throughout the world and  
13 by law if you get a favorable patent examination  
14 from any one of those 13 offices including  
15 Israel's, the other offices' examination results  
16 will be deemed to satisfy the Israeli  
17 requirements. That's de jure.

18 The other things, I think, people may  
19 not be so much aware of that, but obviously people  
20 are probably aware of patent prosecution highways  
21 which, I think, are more informal and less de jure  
22 but de facto ways to engage in some sort of

1 international work sharing among offices. I  
2 think, these methods of decentralization of patent  
3 examination and demonopolization of patent  
4 examination are really something that we have to  
5 go to in the international world.

6 Then I'm going to take us to the next  
7 step. I'm going to say if we're going to move to  
8 this decentralized model then in some fundamental  
9 way we have to rethink patent examination as not  
10 being a governmental function. We can still think  
11 of the patent grant as a governmental function,  
12 but we have to think of the basic search and  
13 report associated with whether the claims are  
14 patentable or not as being just like contracting  
15 for expert services. One way to think about that  
16 is to think about if you were going to go to an  
17 expert and you were seeking an expert opinion in  
18 litigation or in business about some highly  
19 technical area of law or science or a combination  
20 of both and you said I want an expert opinion on  
21 this and the expert said I know that area very  
22 well. I can give you an expert opinion. It will

1 take me about 20 to 40 hours of work which is, of  
2 course, is about what examiners spend on average  
3 over a patent application, and you said, great,  
4 I'm willing to pay you for that. Then the expert  
5 says, I think, I can have that 20 or 40 hours of  
6 work done by 2012, maybe 2013, I think, you would  
7 think this person is crazy because the business  
8 world just simply cannot tolerate that sort of  
9 delay and you would think that it is absolutely  
10 loony to say I have to wait 2, maybe 3 or 4 years  
11 in order to complete an expert opinion on  
12 something.

13 And, I think, that is where we have to  
14 refocus our expectations so that 20-month patent  
15 pendency which everybody thinks is an unrealistic  
16 goal for the government, I think, is exceptionally  
17 too long. This is true in some European nations.  
18 One of the points about this study that I've done  
19 in this article is that because of the creation of  
20 the European Patent Office, there is some  
21 competition in Europe right now because you can go  
22 to the European Patent Office or you can go to the

1 remaining national offices and some of those  
2 national offices have become very, very speedy  
3 like the German Patent Office. It still has a  
4 very high reputation, but it's willing to give you  
5 an examination report which is often used just as  
6 a stepping stone to decide whether to go to the  
7 EPO in a matter of months, in single digits, not  
8 in terms of years.

9           So that is, I think, the situation where  
10 we really have to move toward that. We can't use  
11 a 19th century model of administration for the  
12 21st century. There is no reason to have this  
13 centralization and there are many reasons to move  
14 away from it.

15           My final point is a recognition that  
16 there will be some forces resisting this move.  
17 Some forces are inside the government in the sense  
18 that for a variety of reasons agencies like this  
19 one are going to be a little bit resistant, I  
20 think, of being slimmed down and of reducing their  
21 workforce. But there are also forces outside the  
22 government. We've talked today about the problem

1 of patent delay and patent pendency.

2 For at least some innovators, patent  
3 delay is wonderful because of Section 154(b) which  
4 gives patent adjustments for delay. We can't  
5 forget that. If I'm an innovator who is not going  
6 to commercialize, and let me just say a  
7 hypothetical innovator who has to go through let's  
8 say a long regulatory process in order to prove  
9 efficacy and I know I'm not going to commercialize  
10 where I've got some sort of basic patent right,  
11 but I know it's going to need further development,  
12 so I'm not going to commercialize and many other  
13 people aren't going to commercialize for the early  
14 years. And on top of that I don't need external  
15 funding. I'm self-funding. I either fund  
16 internally or my patent rights are going to be so  
17 clear that people will assume that eventually at  
18 some point in time I'm going to get them because  
19 they're so clearly non-obvious and meet the other  
20 standards of the patent system. Those people are  
21 going to love delay because the longer delay the  
22 longer they will get patent term adjustment

1 associated with 154(b) and those forces are going  
2 to resist in some practical manner any attempt to  
3 streamline our system so that you could get down  
4 to a 20-month delay or a 5-month delay and, I  
5 think, that those have to be taken into account in  
6 a realistic assessment of how likely things are to  
7 reform.

8 MS. MINTZER: Thank you to all of our  
9 panelists for very provocative and interesting  
10 comments. I think, I'm going to start by  
11 addressing what, I think, seems to me a very clear  
12 disjunction between the approaches of several of  
13 the speakers. There is probably a majority of  
14 folk on the panel who think that inefficiency is a  
15 root cause of the backlog problem. Then we have  
16 perhaps a dissenting voice making the argument  
17 that the problem is too much supply that creates  
18 externalities and that needs to be in some way  
19 either taxed or regulated or otherwise reduced.  
20 I'd like to get all of your opinions on why you  
21 think your view whether it be inefficiency or too  
22 much supply is the correct one.

1 DR. MAKOWER: I was really kind of  
2 processing that comment, the idea that we would  
3 deal with the backlog by just getting rid of these  
4 pesky inventors that keep on clogging up the  
5 system. I think, the idea of penalizing people in  
6 some way because they're just putting too many  
7 ideas into the system is remarkable. But, I  
8 think, if we want to promote innovation and  
9 advance, I spend my entire career encouraging  
10 people to invent and getting them to learn the  
11 process of putting patents in and realize as an  
12 inventor myself that it takes time to develop that  
13 skill. And just like anything else you do, you  
14 got to do it a lot before you get good at it. I  
15 think, there are lots of opportunities and I agree  
16 that there is a cost to that which needs to be  
17 borne some way, but I would rather see us all be  
18 doing more inventing certainly in the field of  
19 health care and trying to solve these problems and  
20 teaching people how to carefully protect their  
21 ideas so that they can get the investment  
22 necessary.

1 I've experienced many situations where  
2 inventors have not done a good job of protecting  
3 their ideas and I can't invest in those projects.  
4 There was a brilliant idea from one inventor that  
5 dealt with migraines with a certain substance but  
6 did not take the proper steps to protect their  
7 idea and there really was no way to protect it, so  
8 how could one justify investing in that?

9 I don't know about whether it's  
10 inefficiency on the Patent Office side as the only  
11 other alternative. Maybe there do need to be more  
12 resources. Maybe there do needs to be creative  
13 ways of outsourcing, et cetera, like that. But  
14 from an inventor's standpoint and from a  
15 physician's standpoint, I'd rather see a greater  
16 flow. I'd like to see us all encouraging more  
17 young people to be inventing and more inventors  
18 getting into the system than less.

19 MR. DUFFY: You might want to save your  
20 fire to respond to everybody. I always think when  
21 I propose an idea, what is the likelihood of it  
22 being realized. I know that my idea sounds

1 radical, but I actually looked internationally and  
2 saw that there actually is a growing degree of  
3 competition in international work sharing and that  
4 that is an intellectual step toward  
5 demonopolization.

6 Professor Meurer's idea, to give one  
7 really practical example of what his idea means,  
8 is to say that for his idea to be accepted you  
9 should really look at fee diversion and say we  
10 want more of it because that's a tax on patents.  
11 You should say, Director Kappos, please, Congress,  
12 take more money from us and really support that.  
13 I don't see that in the political cards in the  
14 future and I would be somewhat opposed to it to  
15 put it mildly.

16 The second point I'd say is that the  
17 Supreme Court has standards associated with  
18 definiteness of patents and also associated with  
19 whether a patent should be non-obvious or not.  
20 Indeed, the Supreme Court in the *Graham v. John*  
21 *Deere* case which is the seminal case of  
22 non-obviousness said patents should only be

1 granted if the invention would not be devised or  
2 disclosed without the inducement of the patent.  
3 So if we're going to let's say categorically  
4 exclude a bunch of patents then what we're saying  
5 is we're going to get rid of some inventions and  
6 we don't have them in the public domain at all.  
7 They either won't be disclosed or they'll be held  
8 completely as trade secrets and, I think, that  
9 that is something is a difficult policy position  
10 to be in.

11 If the argument is that there are a lot  
12 of bad patents issued today, I'm with you. I  
13 think, there are a lot of bad patents issued today  
14 and there's a lot that can be done to improve  
15 making sure that our patent system adheres to its  
16 ideals. But, I think, something like a  
17 categorical exclusion or a flat tax on patents  
18 that those in and of themselves are not likely  
19 ideas and not particularly desirable ideas.

20 MR. STERN: I'm not piling on  
21 necessarily. Maybe I am. I'm going to build a  
22 little bit on John's point. I think, we should

1 recognize that it would be very unlikely to me  
2 that the cause of the patent backlog is  
3 inefficiency per se in the sense of totally  
4 obvious things that you should do that would  
5 dramatically by many months accelerate the  
6 process. When we did work with the national  
7 academies around this what we noticed was that  
8 there is tremendous variation among examiners and  
9 in examiner behavior and, I think, that the  
10 individualistic examiner's specific approach to  
11 examination is just very deeply embedded in this  
12 facility, in this institution.

13 With that said, I think, there are two  
14 points that we should keep in mind. The first is  
15 I would go back to John's point about going to the  
16 expert and saying your problem needs 40 hours of  
17 work. I'll get back to you in 2013. I'm just not  
18 sure about how much experimentation the PTO has  
19 undertaken to really and dramatically lower the  
20 patent backlog for those applicants who really  
21 desire it. And when I say really lower it, I  
22 don't mean to 20 months, I mean to 2 months. It's

1 40 hours of work and that's with several rounds of  
2 review. If you really thought about it, if people  
3 were willing to pay for it in terms of an auction  
4 or a mechanism of getting into that piece, you  
5 could imagine that examination soup to nuts could  
6 be done in a manner of weeks, not months and  
7 certainly not years. I don't think it's been done  
8 -- a really systematic set of experiments. I know  
9 you guys are trying them right now on the green  
10 tech piece, but even that is a one module  
11 experience, I think, to bring it under a year as I  
12 understand it and I might be wrong about that  
13 expedited review piece.

14 The second part and then I'll finish up  
15 is just to say, and in this I will disagree with  
16 Mike, I think, that there are very few levers that  
17 we have. Relative to the externalities that you  
18 brought up, the big externality here is that we  
19 find it difficult as a society for good reasons to  
20 promote innovation relative to it's socially  
21 optimal use and patents and the patent system are  
22 one of the few low-cost policy levers we have to

1       actually promote economic growth and prosperity.  
2       I actually think the problem is not inefficiency  
3       in this building, it is missing by an order of  
4       magnitude the resources we devote to the precision  
5       and identification of intellectual property rights  
6       on the part of the public essentially. So in some  
7       sense the fact that the PTO, one of the few places  
8       that we have in the government that promotes  
9       growth, ends up having to ship half of its revenue  
10      off to other agencies suggests to me that at the  
11      very least you should get your budget -- let me  
12      leave it there before I get too excited.

13               MS. RAI: I would say amen to that.  
14      Fortunately, I don't think it's quite half yet.

15               MR. OGAWA: I don't want to pile on  
16      either. I think, everybody knows what side I'm  
17      on, but I'm not stating it for making more money  
18      so I can buy an iPad or something like that. But  
19      basically one thing that I want everybody to know  
20      because I write patents and I've defended patents.  
21      I did a lot of licensing in my career. I looked  
22      at all of IBM's top patents, AT&T, Lucent,

1 Hitachi, all the big companies, and one thing that  
2 the system cannot do is suppress innovation. Most  
3 of the really good patents that I've seen in my  
4 career are small improvement patents but there  
5 were very important improvements and basically we  
6 cannot have a system that systematically  
7 eliminates these types of patents because if that  
8 happened there wouldn't be any investment in these  
9 new types of products. So it's very important  
10 that the patent system continues to encourage the  
11 filing of patents and innovation.

12 With regard to the inefficiency problem,  
13 I don't know if that's really the right word for  
14 it. I know in the art units that I work in for  
15 example, and I'll give one example, and contrast  
16 with another art unit that I've been involved with  
17 for a number of years. I work in the  
18 Semiconductor Group. That group, Tech Center  
19 2800, I file a patent. I could get an office  
20 action back fairly efficiently. The examiners are  
21 very well trained. I get patents issued fairly  
22 easily. The examiners and I have at least a good

1 view on what is inventive, what is non-obvious,  
2 things go through and we get products like this.  
3 It happens.

4           Solar is an area that I started working  
5 in probably the last maybe about 7 years. In  
6 2005, I learned that there were two examiners in  
7 the entire Patent Office that were examining solar  
8 patents. That's all. Just two examiners. This  
9 is what I heard. I don't know if this is true. I  
10 heard this from a patent examiner so I assume it's  
11 true. The other area that I file patents in is  
12 fishing lures. In 2005, there were two examiners  
13 examining fishing lures too. That kind of gives  
14 you an idea of where our country's priorities are.  
15 It's all about fishing.

16           Recently I visited the Patent office and  
17 it turns now there's just a whole bunch of people  
18 in the solar area so I'm assuming a lot of these  
19 people are not as experienced so I don't know if  
20 it's an inefficiency issue, but certainly there  
21 are a lot of new examiners. We've seen the same  
22 thing happen. I worked in a number of areas of

1 high tech. At first when I started practicing in  
2 1993, it was hard to get semiconductor cases  
3 allowed and even computer cases allowed. We had  
4 to really describe what a computer was or  
5 software. Software was hard to get allowed and  
6 then eventually the Patent Office understood the  
7 bounds and goals of obviousness and novelty were  
8 and those things got easier to do. Optical  
9 networking and telecom, the same types of things  
10 happened. So, I think, it's just kind of a  
11 learning process. There is no easy way around it.  
12 It's just going to be painful for a while, but, I  
13 think, if we put enough resources to it, it will  
14 get better.

15 MR. MEURER: I think it's probably  
16 unfair for me to be provocative and then claim to  
17 be misunderstood, but, I think, my fellow  
18 panelists have misunderstood me. In our book  
19 "Patent Failure" we argue that the patent system  
20 performs passably well when it comes chem-pharma.  
21 We would probably find that's true for medical  
22 devices but we don't have enough data in that

1 sector to really analyze it separately. But then  
2 we go on and we argue that we could make the  
3 patent system look more like a property rights  
4 system and restore it to its past glory. I think,  
5 there is no reason why the patent system cannot  
6 work for semiconductors. Unlike John, I do think  
7 there is a reason the patent system cannot work  
8 for business methods. So if you want to accuse me  
9 of being anti- patent when it comes to business  
10 methods but not otherwise. So as Scott just said,  
11 the patent system does provide one of the good  
12 levers for effecting innovation. I agree with  
13 that. And we could actually turn it into a  
14 positive rather than a negative for many sectors  
15 of the economy.

16 In terms of the pesky inventors, you  
17 know that we have a §103 standard here so that  
18 there are lots of small innovators that if §103 is  
19 working properly don't get a patent. Imagine a  
20 world in which Jerome Lemelson had never received  
21 a patent. Would we have moved farther ahead in  
22 the pace of innovation without those? I think,

1       probably yes. Economists would talk about rent  
2       seeking. We need to distinguish between real  
3       innovators who are going to contribute technology  
4       to those that can innovate and commercialize it  
5       and those that aren't. So there's a lot of  
6       heterogeneity. The patent system might work  
7       fairly well for some kinds of technology. I  
8       think, it works badly for most.

9                So in terms of the fee diversion  
10       comment, I have one reason to endorse fee  
11       diversion. I'd like a Patent Office that was well  
12       funded. It makes sense for innovators to want to  
13       pay more to support a better staffed Patent  
14       Office. Also John was talking about what's the  
15       alternative? If I push people out of the patent  
16       system, I'm pushing them into trade secrecy? I  
17       don't think the cost in terms of disclosure is  
18       very big. It hasn't been documented. It might  
19       push them into open innovation which seems to be  
20       growing rapidly in the innovation landscape. So I  
21       don't see a huge loss there.

22                Finally, what do we do about the very,

1 very basic and important question of quality  
2 versus backlog? As we move to address backlog are  
3 we going to be sacrificing in terms of quality?  
4 Given what I've said so far you'd think that I've  
5 be really worried about quality as opposed to  
6 speed. I think, any realistic person is going to  
7 recognize that mistakes are always going to be  
8 with us. What we should really be doing as we  
9 address the backlog problem is also as Scott was  
10 suggesting think about more creative management of  
11 the examination process, and here's the goal that  
12 I would set out. To use economics jargon again, I  
13 would try to minimize the expected social cost of  
14 mistakes that will inevitably happen in the  
15 examination process. We don't know very much yet  
16 about what is most harmful to society. Is it a  
17 mistake where on a small innovation the patent is  
18 not granted where it should have been? Or is it  
19 more costly where there's a real innovation that  
20 will get patented but mistakenly too much scope is  
21 given? Or mistakes in the opposite direction, too  
22 little scope, denial, too many patents, too much

1 scope. We've got at least four possibilities of  
2 errors. Nobody yet knows what the social costs  
3 associated with those errors are.

4 In some work I've done I've talked about  
5 lots of different strategies the PTO might use to  
6 prioritize examination tasks. We need to be  
7 realistic. We need to get something done well at  
8 the PTO, leave other issues predominantly for the  
9 courts to address, but that needs to be part of  
10 this conversation. What are priorities besides  
11 time? Other things need to be done thoughtfully.

12 MS. RAI: I'd like to follow-up on that,  
13 and maybe we could ask Josh and Richard  
14 following-up on the idea about paying for  
15 acceleration. Is that something you would  
16 consider and is it something that you think might  
17 have any sort of systematic advantages or  
18 disadvantages for any specific types of firms or  
19 industries in particular?

20 DR. MAKOWER: We would definitely pay  
21 more for a faster patent. It's definitely  
22 valuable. I think, that the opportunity to have

1 folks and players in the system that don't have  
2 those resources to still eventually get a patent  
3 makes sense. But if you are at the cusp of  
4 investing a substantial amount of capital to put  
5 at risk, it makes reasonable sense that one might  
6 also therefore have the resources to behind  
7 getting a faster decision made. So I definitely  
8 think that's possible.

9 I want to return to one comment also  
10 about the pharma industry. I don't think the  
11 pharma industry would enjoy a delay in the  
12 issuance of a patent because that increases the  
13 uncertainty but certainly needs the delay or the  
14 extension of patent life in the case of regulatory  
15 delay, but those are two different things. The  
16 delay of the extension of rights should not really  
17 be parallel with the idea that we would want to  
18 delay the issuance because the issuance gives us  
19 certainty that we can make those investments.  
20 But, I think, from a med-tech and pharma's  
21 perspective there would be an interesting in  
22 accelerating with a fee if necessary.

1 MS. RAI: Just to follow-up on that from  
2 some of the academics, do you see any hazards from  
3 allowing applicants self-selection into  
4 acceleration with a fee barrier of some sort? All  
5 of you, if you could comment, is there any  
6 possibility of gaming? Are there going to be  
7 externalities associated with that, et cetera?

8 MR. OGAWA: I want to echo Josh.  
9 Basically, I think, the industry as a whole, like  
10 for example most of the companies that I work with  
11 want to file. I don't know why numbers matter,  
12 but numbers do matter, so usually like in  
13 electronics or clean tech when you want to build a  
14 billion- dollar business you got to have 20, 30,  
15 50, 100 patents. There's some number that people  
16 are comfortable with. So they're already spending  
17 quite a bit of money so I don't think it's a  
18 problem spending a little bit more to expedite a  
19 case. I think, that's a system which will work.

20 MR. STERN: Let me make two points. One  
21 is I do think that there is no doubt that if you  
22 go to a system where some applicants can select

1       into the fast track you're going to end up  
2       disincentivizing some innovators at the expense of  
3       others particularly those who have liquidity and  
4       capital who live in Silicon Valley, so on and so  
5       forth. Around MIT that's going to be fine, but  
6       the independent innovator you worry about a little  
7       bit more in that situation. That having been  
8       said, one thing that I've always been amazed at  
9       and I might be wrong, also I'd love to hear from  
10      our practitioners, but it is that everyone  
11      complains about pendency, but if you actually look  
12      at how long people take relative to the deadline  
13      that was imposed on them on getting back to the  
14      Patent Office, they take their full allotment of  
15      time. My dear adviser Nate Rosenberg has many  
16      good quips, but one of them is that the greatest  
17      innovation is the deadline. It's the ultimate  
18      general purpose technology and, I think, that  
19      that's true.

20                So there are two pieces of it. One is  
21      let's get a few people in. That's going to lead  
22      to some gaming but it will address particularly

1 for high-impact innovations very important funding  
2 issues and commercialization issues. The second  
3 is how to shift the system so that the timing at  
4 the PTO is lower but also the time out in the  
5 field in response is lower. Right now it's just  
6 kind of this dysfunctional system where because it  
7 takes so long at the PTO, no one is really time  
8 sensitive about it so then they give you 6 months  
9 and on the last day you get your act together, you  
10 send it back in. I think, that it would be right  
11 that you could imagine dramatic compressions of  
12 time leveraging information technology in  
13 particular that allowed for a much more  
14 affirmative part of responsibility on the part of  
15 serious applicants and also dramatically  
16 ultimately kind of sort it out and reduce backlog  
17 over time.

18 DR. MAKOWER: I'd just really quickly  
19 respond to that. I think, that there are  
20 different strategies for different time periods.  
21 I know that Ep Wright who I work closely with,  
22 whenever we get a response we quickly respond

1       because it's front of mind. They're just looked  
2       at the material. Maybe we can actually get some  
3       progress, and our goal is to get that as soon as  
4       possible with frontline patents.

5               Then there's the other kind that are the  
6       additional patents that help, picket fence and  
7       create breadth, and those are less urgent. So, I  
8       think, the opportunity to elect these are the ones  
9       that have a big flashing red light on and to make  
10      those move faster and to be able to like you say  
11      take your time on the other ones because those  
12      aren't as much of a priority is a good  
13      opportunity.

14              MR. MEURER: Like Josh and Scott, I  
15      think, self- selection is a great idea. I think,  
16      your question puzzles me a little bit, Arti. You  
17      asked is there a downside by strategic behavior by  
18      people who want to slow examination? Let me stop  
19      there. I don't want to put any words in your  
20      mouth. Maybe trolls might want to delay  
21      examination of their patents, but trolls have so  
22      many strategic tools available to accomplish

1       whatever their goal is. I can't really see that  
2       there's much to worry about there. So, I think,  
3       that this sort of self-selection mechanism is a  
4       great idea and if we get valuable technologies,  
5       valuable patents examined quickly that's going to  
6       contribute to better notice dealing with the  
7       concern that I have and provide incentives more  
8       quickly so it seems like it's bound to be a good  
9       idea.

10               MS. RAI: My question was designed to  
11       elicit I know economists come up with all kinds of  
12       worst-case scenarios, so I was hoping to get all  
13       the worst-case scenarios out on the table.

14               MR. DUFFY: One last comment about that  
15       is that it is very interesting to see innovators  
16       here, to see people here who want to pay money for  
17       a service and who are stuck in a queue and who  
18       can't do it. That's fairly rare in our economy,  
19       that people are stuck in this years long queue.  
20       And they say I want to pay money. I want to pay  
21       good, hard, cold cash today for this service, and  
22       the answer is, no, you have to wait in line.

1       There used to be a country called the Soviet Union  
2       where that was common but it's rare in our  
3       economy. It is rare in our economy. So that is  
4       one point.

5               The second point is it is great that  
6       you're trying to come up with more experiments as  
7       Scott said, and this is an experiment, and it make  
8       sense. The problem if you sort of step a little  
9       bit and say why is the large bureaucratic PTO not  
10      more experimental, it sort of answers itself. If  
11      you want to develop a more experimental system,  
12      you have to try demonopolization of some sense,  
13      and in some ways by trying these various  
14      experiments you're going to be trying to become  
15      managers of patent systems rather than a single  
16      patent system and the more you do that, you might  
17      find bad effects in experiments. They have a  
18      habit of cropping up. It's going to be very, very  
19      hard for a bureaucracy, a large centralized  
20      bureaucracy, to correct those mistakes on the fly,  
21      whereas it may not be as hard for relatively  
22      diverse entities to correct mistakes or for a

1 regulator of those entities to correct the  
2 mistakes.

3 MR. OGAWA: So I just have one comment  
4 that, I think, came out here. The one thing that  
5 I learned about patents is not all patents are  
6 created equal. One of the things that Vinod  
7 Khosla asked me to, I represented about 300  
8 companies, 200 or 300, there's some number like  
9 that, and he is really into using kind of like  
10 phenotype information so I know the academic  
11 people probably like what I have to say. But  
12 basically he said think of 50 companies that you  
13 represented because I want to figure out which  
14 patent was the important patent. So one weekend I  
15 got out my Excel spreadsheet and I randomly picked  
16 out 50 companies. Some of them did really well.  
17 They went IPO. They got sold, whatever. Other  
18 ones went bust. There's a variety of these  
19 companies. But what I did was I kind of  
20 phenotyped it. I tried to figure out how many  
21 years of experience the innovators had. What kind  
22 of venture capitalists they had. I tried to come

1 up with all these different parameters and then  
2 whether or not they got any patents.

3 What I learned was in all these  
4 companies, and typically these were single product  
5 companies, the most important patents were the  
6 first, second or third patents and they're all  
7 certainly filed in the first 6 months or so or a  
8 year of getting funded. So that's what I learned.  
9 And all the patents that I expedited through the  
10 system were patents like that.

11 Subsequent to that we might have filed  
12 when we went to manufacturing another 50 patents  
13 or 100 patents, but most of those patents you  
14 could kind of design around or get around. It was  
15 kind of a manufacturing trick. The core patents  
16 tended to be the ones early on in the company. So  
17 not all patents are created equally. When we talk  
18 about patents in this forum we talk about good  
19 patents and bad patents. But really there has to  
20 be some way to put more priority or emphasis or  
21 quality checks on these patents that at least the  
22 companies think are important.

1 MS. MINTZER: I think with that we'd  
2 like to open it up to the audience and see if  
3 there are any questions before we break for the  
4 next panel.

5 MS. RAI: We're running a little bit  
6 over, but you still have about 10 minutes for a  
7 break and we'll start our second panel at 11:15 or  
8 11:20 or so.

9 (Recess)

10 MR. CHEN: Good morning. I'm Raymond  
11 Chen, deputy counsel and solicitor here at the  
12 Patent and Trademark Office. Co-moderating the  
13 second panel of the day with me is Suzanne Michel,  
14 who is the deputy director of the Office of Policy  
15 Planning at the Federal Trade Commission. We're  
16 going to be looking at the patent system from a  
17 different angle with the second panel. Earlier  
18 this morning you heard about the patent  
19 application process and all the challenges with  
20 the backlog. Here on this panel we're going to be  
21 looking at the tail end of patent litigation and  
22 the remedies of injunctions that are available in

1 district courts as well as the ITC and the effects  
2 on competition and innovation with that potential  
3 remedy.

4 Before I throw it over to Suzanne to  
5 introduce our panelists, I'd like to just set the  
6 table by giving a little introduction. Patent  
7 owners facing infringement by imported goods have  
8 two different options for bringing an infringement  
9 lawsuit. First, they may file at the  
10 International Trade Commission based on Section  
11 337 of the 1930 Trade Act. Alternatively, second,  
12 they can file in U.S. District Court assuming that  
13 court has jurisdiction over the accused infringer.  
14 The increased popularity of the ITC for patent  
15 litigation has raised interesting questions about  
16 the causes and effects of a patent owner's choice  
17 of one of these forums over the other as well as  
18 the consequences of allowing a patent owner to  
19 bring the same suit in both fora.

20 These issues have received increased  
21 attention over the years, especially in light of  
22 the Supreme Court's recent 2006 decision in eBay

1 v. Merc Exchange. In that case, the Supreme Court  
2 ruled that district courts following a finding of  
3 infringement must follow the four factor equitable  
4 test in determining whether an injunction should  
5 issue. Since that decision by the Supreme Court,  
6 district courts have been denying patent owners'  
7 injunctions in over 20 percent of the decided  
8 cases. Remedies in the ITC, however, are governed  
9 by a different statute than those in district  
10 courts, and the ITC has ruled that the eBay four  
11 factor equitable factor test does not apply there.  
12 So that distinction has led a number of  
13 practitioners to suggest that patent owners  
14 worried about their ability to obtain an  
15 injunction in district courts should consider  
16 filing in the ITC.

17 This morning our panel will explore the  
18 effect on innovation and competition of having  
19 these two alternative tracks for patent  
20 litigation. As part of the exploration, we will  
21 discuss the impact of the eBay decision, the  
22 differences between remedies available in district

1 court and the ITC and proposals for addressing  
2 those differences. Now I'll turn it over to  
3 Suzanne.

4 MS. MICHEL: Thank you, Ray. We're very  
5 grateful to the panelists who have joined us  
6 today. Fully 50 percent of this panel have  
7 traveled from California to be here, so thank you  
8 very much.

9 Their full bios are on the tables in the  
10 back, so I'll just give you a brief introduction  
11 to each of our panelists. First we have William  
12 Barr, who was general counsel of Verizon  
13 Communications from 2000 to 2008 and also general  
14 counsel of GTE before that. Prior to that he  
15 served as Attorney General of the United States  
16 from 1991 to 1993. He currently serves on the  
17 board of directors of several corporations.

18 Next to him we have Barney Cassidy, who  
19 is general counsel and executive vice president of  
20 Tessera. Before coming to Tessera in 2008, he  
21 served as general counsel and senior vice  
22 president for Tumbleweed Communications

1 Corporation, a startup company that he helped take  
2 public in 1999.

3 Next we have Colleen Chien, who is an  
4 assistant professor of law at Santa Clara where  
5 she focuses on patent law and international IP  
6 law. She recently published an excellent article  
7 on the ITC that has many statistics showing how  
8 that forum is being used by patent litigants.

9 On this side of the table we have Alice  
10 Kipel, who is a partner in the Washington office  
11 of Steptoe & Johnson. She is a member of the  
12 International Department and the Intellectual  
13 Property Group. She has extensive experience in  
14 Section 337 litigation before the ITC and she  
15 speaks frequently on that topic.

16 To her right we have Christine McDaniel,  
17 who is the chief economist to Chairman Shara  
18 Aranoff at the ITC. She has held many other  
19 senior positions as an economist in the Treasury  
20 Department, the White House Council of Economic  
21 Advisers and other government agencies.

22 Finally we have Emily Ward, who is vice

1 president and deputy general counsel and worldwide  
2 head of technology and patent law for eBay,  
3 PayPal, Shopping.com and all the eBay  
4 subsidiaries, a big job.

5 This panel is going to operate as a  
6 roundtable discussion. Ray and I will be posing  
7 questions to the panelists and hope to really  
8 spark a dialogue among them. We will also be  
9 providing some background information as we  
10 proceed. I'll ask panelists who would like to  
11 chime in and address the questions that we're  
12 throwing out that you can turn your table tents up  
13 on the side and I'll leave mine up just as a  
14 reminder. If you forget, please don't worry.  
15 Just chime in. We really want a dialogue. Also  
16 as a reminder, you'll need to turn your  
17 microphones on and off.

18 With that, let's get started. Colleen,  
19 could you give us some background on the rationale  
20 for establishing an administrative procedure for  
21 patent litigation in the ITC and some information  
22 on what kind of litigants are using the ITC?

1 MS. CHIEN: I'm happy to do so. I'm  
2 Colleen from Santa Clara, part of the California  
3 contingent, and I'm honored to be here today.

4 The ITC does many things, but as a  
5 patent litigation venue its purpose is to protect  
6 domestic industries from patent infringing  
7 imports. Usually this is in the form of  
8 injunctions at the border called exclusion orders  
9 to keep out infringing products. Historically  
10 then its purpose has really been to provide a  
11 special solution to the special problem of  
12 infringing imports.

13 You may ask why does this problem need  
14 special attention. Consider the prototypical fact  
15 pattern that Section 337 was originally designed  
16 to address. You have a domestic company investing  
17 significant money in resources in developing and  
18 promoting a product. An American company puts it  
19 on the market and charges a price for it that  
20 incorporates the cost of development and  
21 marketing, et cetera. Enter then a foreign  
22 competitor, in this case a counterfeiter, that

1 makes a knockoff version of the product.

2 Counterfeiters are typically based let's say in  
3 Asia or could be coming from other parts of the  
4 world. The counterfeiter would then attempt to  
5 import the product into the U.S. and sell that  
6 product at a much lower price than the American  
7 company.

8 What are the options for the American  
9 company here? There are some problems with trying  
10 to bring that counterfeiter to district court.  
11 The counterfeiter is as I said based probably in  
12 Asia and has no U.S. assets so it's hard to get  
13 personal jurisdiction over that defendant. In  
14 addition, if you actually are able to bring them  
15 to court and secure an injunction against that  
16 counterfeiter, they may pop up again under a  
17 different name and thus the injunction will be  
18 relatively ineffective. Section 337 of the ITC  
19 was intended to patch the holes in both the  
20 jurisdiction and the remedies left open by this  
21 and related fact patterns. The jurisdiction  
22 within the ITC is not in persona but it's in rem,

1       so the presence of the infringing goods is  
2       sufficient. It's very fast thereby keeping up  
3       with fly-by- night operations that might try to  
4       shift their production quickly. It's also  
5       enforced with the help of Customs thereby sealing  
6       the border with the exclusion orders at least in  
7       theory.

8                It also offers this special remedy,  
9       something called the general exclusion order,  
10      which blocks infringing imports regardless of  
11      source so that if the company then reincorporates  
12      as another name then the imports will be kept out  
13      regardless of what name they come under. Not  
14      every patentee is entitled to use the ITC, only  
15      those that can provide or prove a domestic  
16      industry as well as an importation. That's  
17      because it's important to remember that even  
18      though today we're talking about innovation and  
19      competition, Section 337 is really part of a trade  
20      regulation meant to protect domestic industries.  
21      It was created as part of a larger package of  
22      trade regulations that include things like

1 tariffs, things are meant to make it harder for  
2 free trade to take place. So that's kind of the  
3 providence of the ITC, again being a special venue  
4 designed to deal with the special problem of  
5 foreign infringement.

6 But over time it's come to be used much  
7 more broadly and these changes are mainly  
8 reflected in who brings the suits and who the  
9 suits are brought against, going to the second  
10 part of Suzanne's question. Although as I've  
11 said, the purpose of the statute for most of its  
12 history has been to protect domestic industries  
13 from foreign pirates, we've seen departures from  
14 each part of this formulation over time. That is  
15 to say, even though domestic companies were the  
16 intended beneficiaries of the law, foreign  
17 companies have come to become some of the main  
18 industry leaders of investigations. A few years  
19 ago we saw for instance in the suits between Apple  
20 and Creative, Creative, a Singapore-based  
21 corporation suing Apple, a California company in  
22 the ITC which is the reverse of what you would

1 think about when you would think about the origins  
2 of the ITC.

3 How has this happened? Over time this  
4 domestic industry requirement which was intended  
5 to filter out any patentees who were not really  
6 practicing the patent has been relaxed to such a  
7 point that any patentee that is engaged in some  
8 use, U.S. based of the patent, can get to use the  
9 ITC. As a result, while the majority of cases are  
10 still brought by U.S.-based companies, foreign  
11 companies by themselves initiated 15 percent of  
12 suits. By the way, this statistic and others I'll  
13 be referring to come from an empirical study I did  
14 a few years ago of all the cases in the ITC, these  
15 investigations from 1995 to the present.

16 Also as the economy has gone global as  
17 we've all been a witness too, most manufacturing  
18 has moved overseas and it's been made a lot easier  
19 to meet this importation requirement before  
20 manufacturing is happening domestically so  
21 importation was again a significant barrier to who  
22 could bring their cases in the ITC so that this

1 has broadened the jurisdiction of the statute as  
2 well.

3           What about this issue of foreign pirates  
4 being the main target of the ITC? Again we have  
5 seen a broadening in the type of respondents.  
6 Investigations increasingly name domestic  
7 companies, so much so that U.S. companies are just  
8 as likely to be named as respondents in ITC  
9 investigations as are foreign companies. The ITC  
10 was originally designed to keep out foreigners  
11 from importing things, but now because American  
12 companies are manufacturing overseas, it's  
13 preventing products that were designed by American  
14 companies from coming back into the U.S. to be  
15 sold. In addition, this whole concept of a pirate  
16 or fly-by-night operation, that being the original  
17 intent of the statute as the target, now we see a  
18 broadening of who is actually named in suits at  
19 the ITC, competitors with household names like  
20 Dell and Samsung, and in my study I looked at the  
21 types of respondents that were named in the ITC  
22 and many of them were public companies, I think,

1 over 50 percent. So with these changes, the ITC  
2 has really gone from being a specialized venue for  
3 dealing with a specialized issue to offering a  
4 second track as Ray mentioned before of offering a  
5 second option for patent litigation that's  
6 available to most patentees and in this way it's  
7 become more mainstream.

8 MS. MICHEL: Christine, could you tell  
9 us a little bit about the differences between  
10 litigation in the ITC and in district courts and  
11 why a patentee might choose one or the other?

12 MS. MCDANIEL: We can talk about that a  
13 bit. How patent litigation differs. I imagine  
14 most of you know that the ITC process is more  
15 rapid than you could find in the district courts  
16 and we found looking over data over the past  
17 decade or two that 337 cases go to trial within a  
18 year and the administrative law judge's initial  
19 determination is within about 16 months. That is  
20 compared to what my commission lawyer colleagues  
21 tell me is about 2 to 3 years in the district  
22 court. The type of relief also is different. The

1 ITC does not award damages. They do award  
2 exclusion orders, limited, and in some cases  
3 general exclusion orders. There is no jury at the  
4 ITC. You have an administrative law judge. Over  
5 the years our ALJs have increasing expertise in  
6 high-tech areas that most of our cases have matter  
7 on, so if you have a sympathetic patentee that may  
8 want a jury, they may shy away from the ITC.

9 Other interesting facts that we've found  
10 including percent of ITC cases go to trial, and it  
11 may surprise you to learn that in the past 2  
12 years, 1 in every 7 to 8 patent trials held in the  
13 U.S. has taken place at the Commission.

14 Should we also get into how these  
15 differences drive patentees' decision now? There  
16 has been some work in this. It's very difficult  
17 to tease out of the data, but the work that is out  
18 there does seem to suggest that the stronger  
19 capabilities at the Commission and lower  
20 expectations of settlement in the suit tend to  
21 lead patentees to target the ITC, particularly  
22 patentees with high-value patents. Sometimes it

1        may lead to targeting of both forums where you can  
2        request a stay from a district court, but  
3        particularly the ITC going first just because of  
4        the rapid pace of the case. In the space of a  
5        decade we have seen our caseload at the Commission  
6        on 337 cases more than triple. In Fiscal Year  
7        2009 the Commission had 85 cases going on. We  
8        also see more non-practicing entities participate  
9        in 337 cases as well.

10            You may ask why this surge in 337 cases.  
11        Colleen has talked about this a bit this morning  
12        and has written about this. We've looked at the  
13        data ourselves and have some educated guesses.  
14        The caseload surge has come well after the 1974  
15        and 1988 amendments so we think it's more than  
16        that. There are a few reasons I'd like to discuss  
17        and afterwards at some point would love to get the  
18        audience's input on why they think the 337  
19        caseload has increased over the decade as well.

20            One reason is, and as an economist this  
21        is real easy to understand, the increasing  
22        geographical fragmentation of production. Look at

1       the iPod, designed in California and assembled in  
2       China. The other day I had to get a little  
3       cleaning kit for my glasses at Kaiser Permanente  
4       and there's a sheet of paper in there that says  
5       where the cloth came from, where the chemical in  
6       the liquid for the liquid cleaner came from, where  
7       the plastic was made that encased the cleaner and  
8       where the whole case for the entire packet came  
9       from, all from different countries and regions.  
10      In fact, I should have kept that. There's a great  
11      study out of U.C.-Irvine that talks about looking  
12      at the iPod from innovative and design to  
13      manufacturing stage and even breaks it up into  
14      more than just China and the U.S. As more parts  
15      of the innovation, design and manufacturing  
16      process have shifted around the world, we see more  
17      trade in high-tech and high- products and goods  
18      that rely on patents so we just see more trade in  
19      high-tech than ever before.

20                    Another reason that's sort of  
21      interesting at least to economists is the pace of  
22      innovation has increased so that there is this

1 life cycle of a product and a life cycle of a  
2 patent. This may differ for the pharmaceutical  
3 industry and certain high-tech industries, but in  
4 high-tech industries the pace of innovation and  
5 the life of a patent has become shorter in many  
6 areas and we think that this might be one reason  
7 that we see more cases at the ITC again related to  
8 the rapid pace of the case. When the life cycle  
9 of a patent is shorter, there is less time to  
10 exploit the value of the patent and you may not  
11 have 2, 3, or 4 years to wait it out in district  
12 court.

13 As I mentioned before, ALJs have  
14 considerable expertise in these high-tech areas.  
15 Some district courts have that and some do not.  
16 But as our patented technologies, at those that we  
17 see at the Commission, become increasingly  
18 complex, the expertise that resides with our ALJs  
19 becomes more important. Some people point to the  
20 eBay decision. That's harder to say. We saw this  
21 caseload surge well before the eBay decision so  
22 it's hard to parse out the effect of the eBay

1 decision on the 337 surge.

2 Another factor that Colleen talked about  
3 was the increase in foreign-based U.S. patent  
4 holders so that we see an increasing share of 337  
5 cases where the plaintiff is a foreign holder of a  
6 U.S. patent. Lastly, this isn't related to  
7 explaining the surge but is just an interesting  
8 point on trends that we've seen in 337 cases. Our  
9 caseload has grown not only in number but also in  
10 complexity. The number of patents per case has  
11 grown. The number of respondents per case has  
12 grown. That's a lot, so I'll leave it at that.

13 MR. CHEN: Thanks, Christine. I'd like  
14 to open it up to the rest of the panel and the  
15 attorneys as well as in-house folks on what their  
16 perceptions are on why there has been this recent  
17 explosion of ITC cases being brought and to what  
18 extent does the eBay inform that. Thanks.

19 MS. WARD: In thinking about it, one  
20 thing I might note is that while there has been a  
21 surge in ITC cases over the last decade, there has  
22 certainly been a surge in patent litigation

1 overall in the district courts and before the ITC  
2 over the last decade. If you look at any of the  
3 statistics that show filings and cases brought in  
4 district court, everything is up and to the right  
5 and the number of cases have really greatly  
6 increased. Are there more filings in the ITC as a  
7 result of eBay? I don't know exactly, but I kind  
8 of doubt it because my guess would be a lot of the  
9 same litigants that typically would have filed in  
10 the ITC are filing there and, I think, litigation  
11 overall is on an increase due to more competitive  
12 pressure being placed if you will on revenues and  
13 companies really trying to maximize the IP value  
14 of their portfolios. I think, there's a lot more  
15 NPE, non-practicing entity, litigation. We see a  
16 lot of that. I think, we're starting to see it in  
17 the ITC but see a lot of it in the district  
18 courts. Thank you.

19 MS. MICHEL: Alice?

20 MS. KIPEL: I'll add that what we also  
21 are still seeing at the ITC are the traditional  
22 cases that the ITC was designed to address and

1       that is imports from a lot of different sources,  
2       hard to catch, and, therefore, the ITC proves to  
3       be a very good forum for that. So while there are  
4       some shifts and you definitely have some of the  
5       higher-tech cases featuring prominently in the  
6       literature, there are still those traditional  
7       cases being brought and so the ITC is still seeing  
8       that sort of caseload in addition to some more  
9       innovative uses of the forum. The other thing, I  
10      think, is a factor in the choice of forum is also  
11      cost and how it hits your books and, I think, the  
12      folks who are in-house will probably have some  
13      comments on that. Clearly, Section 337 litigation  
14      is not cheap, but it's a big hit right up front.  
15      You kind of know it's going be there. You know  
16      that it's going to be in this year or next year  
17      and not drawn out over the course of 3 to maybe  
18      even 5 years so that there's a certain amount of  
19      predictability in terms of the cost. Again,  
20      they're not insubstantial but you know when  
21      they're going to hit and you can plan for them.

22                   And if it's a bet-the-company kind of

1 patent, it makes a lot of sense to bring something  
2 into the ITC where you can get that speedy relief  
3 particularly if the patent is about to expire or  
4 it's a short-life-cycle product. So, I think, the  
5 cost factor needs to also be considered in terms  
6 of why people are going to the ITC. Obviously it  
7 can be a drawback too to have that big hit up  
8 front, but depending on what the litigation is all  
9 about, it can also be a plus.

10 MR. BARR: Based on Verizon's  
11 experience, I would have to say that at least one  
12 of the factors that lead people to go to the ITC  
13 now is the fact that the ITC seems to be holding  
14 itself out as a place where you can get injunctive  
15 relief without the limitations that the federal  
16 courts apply under the eBay case and so you get a  
17 regime of, I think, now almost nearly automatic  
18 injunctive relief if you can show infringement.

19 In addition, I think, the ITC has  
20 deluded the domestic industry standard which was  
21 intended as Colleen said to filter out cases  
22 brought by non-practicing entities so that they've

1       essentially conjured up an approach that allows  
2       non-practicing entities to obtain injunctions  
3       essentially if they can show that they've spent a  
4       lot of money trying to assert their claim against  
5       the people they're accusing of infringing their  
6       patent. So any regime where you have the real  
7       threat of automatic injunctive relief upon showing  
8       infringement simply enables a system of holdup,  
9       where a non-practicing patent holder can use that  
10      sledgehammer of prospective relief to extract from  
11      industries that have expended a lot of resources  
12      and locked themselves into commercializing a  
13      particular technology, it allows the claimant in  
14      that case to extract industry fees that are far in  
15      excess of the economic value of its intellectual  
16      property or its contribution to innovation. That  
17      certainly has been the experience of Verizon.

18               MS. MICHEL: Barney, Tessera has filed  
19      patent litigation in the ITC. What  
20      characteristics of litigation there were important  
21      to the company's decision?

22               MR. CASSIDY: Let me just say that I am

1 an officer of Tesserera and an attorney and I have  
2 duties that run to the company. We have two ITC  
3 cases currently before the federal circuit on  
4 appeal and I want people to understand that I'm  
5 speaking on my own behalf and not on behalf of the  
6 company, just to get that out there.

7 I think we feel it's important or I feel  
8 it's important, it's the royal we, to take a step  
9 back from this conversation and talk about the  
10 importance of companies that license IP whether or  
11 not they're completely practicing in a vertically  
12 integrated way which I don't think anyone does  
13 anymore or partially practicing and what  
14 significance that has for the U.S. economy. That  
15 is the context in which we should be having these  
16 discussions with these three federal agencies that  
17 are charged with looking out for the national  
18 economy, standard living and ultimately national  
19 security which depends upon our ability to remain  
20 a strong economic player.

21 In the past 3 years for which we have  
22 statistics, 2007, 2008 and 2009, the balance of

1 trade related to IP licensing is one of the top  
2 two ways that we make money in the United States  
3 of America. In 2007, using the most conservative  
4 numbers I can find, \$59 billion; in 2008, \$65  
5 billion; and in 2009, back to \$58 billion. This  
6 ranks up there with the aerospace industry and is  
7 comparable to no other industry that is getting a  
8 lot of federal support, say the automotive  
9 industry which is running at a huge deficit.  
10 That's the context in which we have to think about  
11 these problems and how to adjust our laws and so  
12 forth.

13 With respect to non-practicing entities,  
14 is IBM a non-practicing entity? It holds key  
15 patents on laser surgical techniques and makes  
16 money every year on those. It does not practice  
17 in that field, it is not considered a troll, but  
18 with respect to those patents, it is  
19 indistinguishable from a person who just went out  
20 and bought those patents. So when we get into  
21 this there's a category of non-practicing entities  
22 and all the others, I would like to call people's

1 attention to the fact that it's a spectrum.

2 In the case of Tessera, we were a  
3 manufacturer of packaging that goes around  
4 semiconductor chips and successfully sold those  
5 chips until very early in our history we ran into  
6 a customer named Intel who was sort of amused at  
7 the size of our little plant and said, look, kids,  
8 we would prefer to do this manufacturing  
9 ourselves. We don't think you can keep up with  
10 our volume requirements. And by the way, we are  
11 experts at high-volume manufacturing and you are  
12 not. So we agreed at their behest to license the  
13 know-how, teach them how to do it and let them do  
14 the manufacturing. Hence we've grown a business  
15 but we devote about \$60 million a year, and this  
16 is a \$300 million a year revenue company, to  
17 research and development in order to further  
18 improve those technologies and to grow other  
19 technologies some of which we do manufacture. Not  
20 that I'm speaking for Tessera, but I would deny  
21 the claim that Tessera is a non-practicing entity.

22 But I'd further say even if it were and

1        were simply a licensing entity alone, that is a  
2        very valuable part of the U.S. economy today that  
3        should be respected and protected. It is the way  
4        that Americans are making money in the global  
5        economy.

6                The big picture is what's gone offshore  
7        is manufacturing and since it's gone offshore and  
8        we're still at this time the number-one market for  
9        consumer products in the world, people do send  
10       things back in and the question is can they do it  
11       with impunity or should they do it with respect to  
12       the intellectual property that has been created by  
13       innovators who hold U.S. patents. That's the real  
14       issue.

15               I'd like to comment too about the  
16       federal courts and decisions on eBay versus in  
17       district courts and in the ITC. I think, it's a  
18       fairly simple case if you look at the statutes.  
19       The patent injunction statute explicitly says that  
20       injunctions may be granted consistent with  
21       principles of equity. When you start talking  
22       about equity inside of a statute, this is really

1 church and state, equity, church, statute, state.  
2 Equity as law students know is the result of the  
3 English system which was driven by narrow forum  
4 pleading, the requirement of stare decisis and the  
5 requirement that only damages could be granted by  
6 a common law court.

7           There are many other wrongs that people  
8 were suffering that didn't fit into that system.  
9 So back in the 15th century they created the court  
10 of equity, which is known as the court of  
11 chancery, and this would take up other causes that  
12 didn't fit into the narrow legal system and there  
13 were rival courts until the Judicature Act of, I  
14 think, 1783, which said all courts can hear things  
15 in equity and in law. In the patent statute  
16 regarding injunctions it says consistent with the  
17 principles of equity which is why the Supreme  
18 Court in eBay said let's look at the usual  
19 considerations before granting equitable relief in  
20 the form of an injunction. That is not what  
21 Section 337 says; 337 is on the law side and it  
22 says you shall grant an exclusion, you shall

1       exclude, but then it goes on to day unless and  
2       lists several factors that could be considered  
3       equitable type factors, health and welfare of the  
4       United States and so forth, consumers in the  
5       United States, so it's kind of built in.

6               And as, I think, everyone knows, there  
7       is a presidential review period following the  
8       issuance of an order by the ITC in a final  
9       determination so that those considerations are not  
10      entirely lost. But if the complaint is these  
11      things should be the same, that's not what the  
12      statutes say so courts can't really go there so  
13      the complaint really is to Congress so that if you  
14      would like to see a different regime, you have to  
15      go to Congress to get it. In this day and age, I  
16      think, that it's unlikely that Congress is going  
17      to do away with injunctive relief at our borders  
18      enforced by the Customs and Border Protection  
19      Agency in light of the fact that this is a key  
20      element, this meaning the licensing of  
21      intellectual property, to our economy, so I just  
22      don't see that happening.

1                   MS. MICHEL: I want to come back to that  
2           issue, but, I think, it helps informing that  
3           discussion to have an understanding of why  
4           litigants want to file in the ITC. Can you help  
5           us understand that?

6                   MR. CASSIDY: To get full relief,  
7           because what you're dealing with today is people  
8           producing inside the United States and people  
9           producing outside the United States that you can't  
10          pull into court. You can't get personal  
11          jurisdiction over them. So if you want to get  
12          full relief, and of course at the ITC you can't  
13          get damages for past wrongs.

14                  MS. MICHEL: Do you feel that a lot of  
15          the drive for filing in the ITC is to be able to  
16          bring in accused infringers that would be  
17          difficult to get jurisdiction over in the district  
18          courts?

19                  MR. CASSIDY: It's certainly a factor,  
20          and let me just talk for another minute about what  
21          the real problem is for a successful entity at  
22          licensing a value innovation. It's patent

1 holdout. It's the collection of people out there  
2 and say in the semiconductor industry you have  
3 some licensees. You have 60 percent of the market  
4 is licensing your innovations and using them and  
5 the other 40 percent is using them but not paying,  
6 the 60 percent beat you up and say why don't you  
7 go after those guys because they're undercutting  
8 me? There's no loyalty in that marketplace.  
9 People will buy the cheapest qualified good. So  
10 you're hurting me. Go out and get them.

11 And the perception, if not the reality,  
12 about eBay is, not the great company but the case,  
13 you can't stop us. You can only get us to pay  
14 damages later on. So you have a businessperson on  
15 the other side who thinks in the following way,  
16 and it's not crazy. I can pay this royalty now or  
17 I can go through a 5-year process of litigation  
18 and either win or lose. If I win, I have to pay  
19 these lawyers but this is a valuable commodity and  
20 a valuable innovation so the cost of paying the  
21 lawyers is honestly insignificant to some of these  
22 companies if it's a very valuable industry. Or I

1 can lose and if I lose since there's a well-known  
2 royalty rate that everyone else is paying, I will  
3 have to pay 5 years later the operating costs that  
4 my competitors are absorbing today. It's kind of  
5 a no-brainer for a businessperson to say delay the  
6 operating cost.

7 By the way, I may retire with this great  
8 profit margin in 5 years and my job as an  
9 executive is to get the company through the next 1  
10 year or 2 years and so forth. I'll just delay  
11 that operating cost by saying come and get me  
12 copper, not take the license that the rest of the  
13 industry has taken and if you succeed, great, I'll  
14 pay, but I'm not going to pay a penalty because in  
15 the meantime I've gotten market share, I've  
16 reduced my costs.

17 So that to me is a much bigger problem  
18 than patent holdup, which is a problem, but people  
19 who require royalties to be paid rarely charge so  
20 much that they put the payer out of business.  
21 That's not economics 101. Do not kill off the  
22 tenant.

1 MS. MICHEL: It sounds like speed is  
2 very important. That's what I'm hearing you say  
3 also. Emily?

4 MS. WARD: Just a brief comment on those  
5 comments and sort of looking at it from a  
6 standpoint of innovation and in the ITC practice  
7 as well. ITC of course is just about injunctive  
8 relief, either a general order or specific  
9 exclusion orders. It is not about really money  
10 damages. But if you consider a non-practicing  
11 entity to have the satisfied domestic industry  
12 requirement to be able to bring a case before the  
13 ITC by showing licensing campaigns, in other  
14 words, they don't want to shut other companies  
15 down. They just really want to make money from  
16 other companies that are innovating and are  
17 producing and in showing that licensing campaign  
18 they show that to satisfy the domestic industry  
19 requirement. Really at the of the day those  
20 companies really want money and if money damages  
21 are what you're after you should be bringing your  
22 case in the district court.

1                   MS. MICHEL: Alice, could you give us  
2                   some background then on the kinds of remedies that  
3                   are available in the ITC and help us understand  
4                   this discussion a little more?

5                   MS. KIPEL: Sure, but before I do that I  
6                   do want to note one thing. I think, it's  
7                   important to keep in mind that Congress in 1988  
8                   did recognize that licensing was important to the  
9                   U.S. Economy in terms of where our innovation had  
10                  gone and where our manufacturing had gone which a  
11                  lot of that was offshore, unfortunately, and so  
12                  that licensing had become more critical to the  
13                  U.S. Economy as a whole and specifically put into  
14                  the statute into the Section 337 provision that  
15                  would enable companies who domestic industry so to  
16                  speak was a licensing industry to take advantage  
17                  of the statute and that was long fought and well  
18                  considered and Congress did make that  
19                  determination. So they recognized that licensing  
20                  could qualify as a domestic industry, R&D,  
21                  engineering, things that had traditionally not  
22                  been considered domestic industries. So, I think,

1 that is important to keep in mind because that was  
2 a policy decision that was made in the late 1980s.

3 Now getting back to the relief at the  
4 ITC, yes, we've got the general exclusion order  
5 and the limited exclusion order and it's important  
6 to keep in mind that both of those do operate in  
7 rem, so, therefore, you don't need the personal  
8 jurisdiction, and the general exclusion order has  
9 the beauty of being directed at all infringing  
10 imports at the border, so obviously there's a  
11 self-policing because if you've got an exclusion  
12 order against products that have been deemed to be  
13 infringing, you shouldn't be bringing them in, but  
14 there is a second line of defense in that U.S.  
15 Customs sits there and polices the border for  
16 goods that are considered infringing and the  
17 exclusion orders are written in terms of  
18 infringing goods staying out at the border.

19 For example, you can't have the  
20 situation of a company name change or just let's  
21 change the model number of the product and it will  
22 come in. It's meant to capture everything that's

1        infringing and Customs at the end of the day has  
2        to look at the products and make a decision as to  
3        whether they're infringing or not sometimes in  
4        consultation with the ITC and obviously looking at  
5        the record from the ITC proceeding to see what is  
6        or isn't infringing and there are ways that if you  
7        disagree with the Customs officer's decision as to  
8        what's infringing or not that you can appeal that  
9        or take it back to the ITC so that you do have  
10       recourse and your last point of the infringement  
11       decision is not with U.S. Customs.

12                    You also have a cease and desist order  
13        at the ITC that's basically meant to capture the  
14        imports that have already come in, the  
15        inventories. Quite frankly, it's not much of a  
16        remedy. It's very rare that that becomes an issue  
17        because during the course of the ITC proceeding  
18        people have tried to adjust and tried to decide  
19        what to do and they don't necessarily want to  
20        bring in a lot of potentially infringing  
21        inventory. So it's there. It's a safety valve to  
22        make sure that people don't all of a sudden bring

1 in a lot of imports when they're faced with a  
2 case.

3 There are also consent orders that are  
4 typical at the ITC particularly for smaller  
5 companies, less- sophisticated companies, and  
6 particularly Asian countries to take a consent  
7 order. And of course there is settlement at the  
8 ITC just like there is in the district court. The  
9 ITC cases don't settle as frequently as they do in  
10 district court, and obviously there have been  
11 studies, you've done some statistical analysis and  
12 others have as well in part because these are  
13 bet-the-company kinds of patents that tend to come  
14 to the ITC so there is less incentive to settle,  
15 and also because damages are not awarded at the  
16 IDP, again that has an impact on whether  
17 settlement will be a way to terminate the case.

18 I do think that it is important to keep  
19 in mind that an exclusion order, while it is a  
20 type of injunctive relief, it's not the same as a  
21 district court permanent injunction. It functions  
22 differently. It is at the border. It is in rem.

1       You do have Customs enforcing it, so I don't think  
2       it's necessarily appropriate to look at the two of  
3       them as coextensive, and in that vein also it's  
4       something that as someone said before, Section 337  
5       is a trade statute, so there is a certain element  
6       of trade policy involved in the decisions that are  
7       made under Section 337, and we have to keep that  
8       in mind, too. And that's why, again, you can't  
9       say that a district court permanent injunction is  
10      the same as an ITC exclusion order. They are  
11      different, one is broader than the other and one  
12      is also more narrow than the other. So with that,  
13      I'll stop on that.

14               MS. MICHEL: Okay, thank you, that's  
15      very helpful.

16               MR. BARR: Can I jump in on this?

17               MS. MICHEL: Yes, please.

18               MR. BARR: Look, if I'm a non-practicing  
19      entity and I'm claiming someone is infringing on  
20      my patent and I want to get legal redress for that  
21      in the form either of forcing them to pay fees or  
22      using in the injunctive power of some body to get

1       them to pay fees, there's one and only one forum  
2       to resolve that, that's the federal courts,  
3       because that's purely a claim of private injury of  
4       my private property right.

5               I'm basically saying I'm being infringed  
6       on. That is a case or controversy under Article  
7       3, which only federal courts can decide. And  
8       that's the forum for resolving those disputes.  
9       The ITC was not set up as an alternative forum to  
10      protect property holders whose only claim was that  
11      my property interest is being infringed upon and I  
12      want relief against the infringer.

13              It's a trade statute that looked at  
14      something beyond the infringement. And what it  
15      was concerned about is the impact of the  
16      infringement on domestic use of the technology,  
17      use by someone other than the person being accused  
18      of infringing.

19              And originally the statute said you've  
20      got to have a domestic industry that's using that  
21      technology that's actually harmed by the  
22      infringing good being imported. And later they

1 reduced that to say, well, okay, you don't need a  
2 full fledged industry that's using that technology  
3 other than the alleged infringer, you can show  
4 that you're engaged in activities to promote the  
5 use, to exploit the technology by actually getting  
6 people to use it and by promoting its deployment.

7 Now, the key word is not licensing, but  
8 exploitation, because the statute says if you make  
9 a lot of investment in trying to exploit the  
10 technology, that may constitute an industry. The  
11 ITC comes along and says -- it mentions licensing,  
12 although, in its decision, it recognizes that  
13 licensing isn't just sort of flapping around by  
14 itself, it's given as a type of exploitation that  
15 could qualify. So it has to be licensing that  
16 seeks the exploitation of technology in the sense  
17 that it is seeking to promote the use of the  
18 technology.

19 So licensing activities that are  
20 designed to get people other than the alleged  
21 infringer to use the technology are legitimate  
22 expenses that can be counted and may constitute a

1 domestic industry. But the notion that a  
2 non-practicing entity can qualify as a domestic  
3 industry by writing threatening letters to the  
4 people it says, you know, are infringing and  
5 demanding that they sign licenses, and that those  
6 expenses then constitute an industry is frivolous.

7 And what it does is, it collapses the  
8 requirement in the ITC act that there be domestic  
9 use that's being impinged upon by the infringer.  
10 Someone other than the infringer is using it, and  
11 the infringer is impinging on their use. And what  
12 it does is, it blows that up and it basically  
13 said, this is really only about vindicating the  
14 private claim of infringement, and the more you  
15 spend on asserting your claim of naked  
16 infringement without domestic use, the more we're  
17 going to recognize that as an industry, as a  
18 domestic industry, and will come to your aid.  
19 Now, that raises a fundamental constitutional  
20 problem which we can get to later, which is, you  
21 know, there's a constitutional problem with having  
22 the ITC operate as an adjudicatory forum for

1 infringement claims, naked infringement claims.

2 It cannot usurp the power of Article 3  
3 judges. There's still a lot of life in Marathon  
4 Pipeline, which struck down the 1978 bankruptcy  
5 law, because it had Article 1 proceedings that  
6 decided issues that are supposed to be  
7 conclusively determined by Article 3 judges.

8 MS. MICHEL: Well, we've heard several  
9 references to the important part of the 337  
10 statute which requires that the patent being  
11 asserted in the ITC litigation relate to a  
12 domestic industry, and that's often called the  
13 domestic industry requirement. And the statute  
14 does say that a domestic industry may be based on  
15 substantial investment in the patent's  
16 exploitation including engineering, research and  
17 development and licensing.

18 Obviously, you can see, I think, from  
19 this discussion already that there's a fair amount  
20 of controversy about what kind of licensing ought  
21 to be considered a domestic industry that would  
22 support an ITC case. Alice, can you give us a

1 little background on the recent decision in the  
2 ITC that's addressed this issue?

3 MS. KIPEL: Sure, I think, a lot of  
4 people have read about the coaxial cable  
5 connectors case, it was a decision that the ITC  
6 rendered in April, and unfortunately, there's been  
7 some inaccurate statements made about the case. I  
8 was reading something in Patent Litigation Weekly,  
9 I guess it was May 17th, that said that the ITC  
10 had found that the complainant actually qualified  
11 as a domestic industry, that's actually not true.

12 The ITC said they didn't have enough  
13 facts to determine whether the complainant was a  
14 domestic industry and remanded the case back to  
15 the ALJ for additional fact finding to determine  
16 whether, under the standard that the ITC laid out  
17 in the coaxial cables case, the complainant did or  
18 did not meet that standard.

19 One interesting point, and the ITC did  
20 grapple with the issue that Bill was talking  
21 about, and I'm not sure how the jury is going to  
22 come out, the jury being the Federal Circuit Court

1 of Appeals, they grappled with the issue of what  
2 does exploitation mean, and they came out on the  
3 side that exploitation could be productive use,  
4 but it could also be just making money off of the  
5 patent via licensing. Speaking personally for  
6 myself and not for any clients or for my law firm,  
7 I'm not sure that that's the correct decision, but  
8 they did grapple with it, they wrote a lot about  
9 it, obviously I'm expecting that there will be  
10 some federal circuit opinion that will address  
11 that issue at some point, maybe not in this case,  
12 but in another case.

13 But it was clear that they could have  
14 gone either way, and they spent a lot of time  
15 talking about the definition of the term  
16 "exploitation." So, I think, we may still see  
17 some further development there in terms of where  
18 the line needs to be drawn in terms of how much is  
19 enough type of thing.

20 The case, the coaxial cables connectors'  
21 case, did involve the question of whether a patent  
22 infringement lawsuit could qualify you as a

1 domestic injury. And what the ITC said was, well,  
2 maybe, and they looked at the fact that the  
3 statute requires you to have licensing to -- an  
4 exploitation via licensing to qualify as a  
5 domestic industry, and so they looked at -- well,  
6 they set out the standards, they said the  
7 litigation has to relate to the licensing, they  
8 said the litigation has to relate to the patents  
9 at issue, they also said that the associated  
10 expenses had to be documented, and very key, they  
11 said the investment in exploitation has to be  
12 substantial. So the substantiality requirement is  
13 in the statute. The question, obviously, is going  
14 to be, on what facts is something considered  
15 substantial and on what facts is it considered  
16 insubstantial.

17 But the ITC clearly said, okay, this is  
18 what it's going to take for purposes of  
19 establishing a domestic industry based on  
20 licensing where your expenses and your  
21 exploitation is your litigation expense  
22 essentially.

1                   And the other important thing they noted  
2           was that they were going to measure the domestic  
3           industry at the time the complaint was filed. So  
4           you couldn't piggyback a situation where you bring  
5           the ITC case and you say, aha, I'm spending money  
6           on litigation related to licensing, and therefore,  
7           I'm a domestic industry, they said, no, that's not  
8           going to cut it, so they did draw a line there.

9                   Obviously, there is a lot written and a  
10          lot said about whether the ITC has drawn the line  
11          at the appropriate point and do they need to take  
12          it back to a more strict requirement for domestic  
13          industry to be proven at least on the economic  
14          prong, and, I think, we're going to see some  
15          shaking out of that because there has been a  
16          slight increase in the number of, what's called  
17          the non-practicing entities, whether that's the  
18          correct terminology or not, but companies that say  
19          we don't manufacture in the United States,  
20          bringing cases at the ITC. So, I think, we are  
21          going to see some factual shake out in the fact  
22          patterns. And, obviously, there are public

1 interest factors that the ITC needs to consider,  
2 and so, I think, it's trying to grapple with  
3 protecting domestic industries, which is not  
4 coextensive with protecting domestic companies,  
5 it's, you know, U.S. land, labor, capital, U.S.  
6 Innovation, that sort of a thing, so.

7 MR. CHEN: Alice, can I just ask a quick  
8 follow-up? I think, a lay person would agree that  
9 domestic industry must typically mean something  
10 like you've got a manufacturing plant and you've  
11 got all kinds of labor and capital invested in  
12 that industry, however, when I just looked at the  
13 statute, it does talk about -- it does define  
14 domestic industry in a much broader way, and it  
15 seems to suggest that anybody that has some  
16 significant investment in exploiting the patent,  
17 including licensing, so I took you to say that  
18 maybe you felt like licensing shouldn't be enough,  
19 but I'm just trying to understand what is the  
20 scope of this statute that defines domestic  
21 industry.

22 MS. KIPEL: Well, I'll back up for a

1 second. Until 1988, it was your traditional  
2 manufacturing industry use of land, labor,  
3 capital. However, in the mid 1980's, there were a  
4 series of cases where complainants were denied  
5 relief at the ITC because they didn't fit the mold  
6 of the traditional manufacturing domestic  
7 industry, most prominent of which was Warner  
8 Brothers with the Gremlins case.

9 Warner Brothers had a very elaborate  
10 licensing program where it was licensing, both  
11 domestically and abroad, people to make various  
12 products that bore the Gremlins, you know, the  
13 little Gremlins on them, and they were -- the  
14 portion of their industry claim that was based on  
15 licensing that was not licensing of U.S.  
16 Manufacturers was denied, even though it was a  
17 very elaborate program.

18 And Congress stepped in after that case  
19 and certain other cases to say, well, wait a  
20 minute, under certain circumstances, licensing can  
21 qualify as a domestic industry because you've got  
22 a lot of innovation, ideas, a lot of U.S.

1       Employment devoted towards finding appropriate  
2       persons and companies to make the various goods to  
3       do the quality control that you have to do if  
4       you've got a trademark, et cetera. And also,  
5       there was concern that you would have entities  
6       such as universities and other research operations  
7       who might be inventing very valuable patented  
8       technology, but weren't necessarily in the  
9       position to take it to market. But yet, again,  
10       there have been substantial devotion of resources  
11       in the United States with respect to either the  
12       R&D or the engineering, and so that was added to  
13       the statute in 1988 in recognition of the fact  
14       that industry in the United States had changed,  
15       and it wasn't just the brick and mortar  
16       traditional manufacturing entity.

17               And in point of fact, in the early part  
18       of the 1900s, when Section 337 was first being  
19       enacted in 1930 and 1922, they used the term  
20       "domestic industry" as opposed to domestic  
21       manufacture because they understood that there  
22       would be times where it might be agricultural or

1 fishing or something like that that needed  
2 protection from foreign imports, so to say  
3 domestic manufacturing was a little bit too  
4 narrow.

5 So there has always been this concept in  
6 the statute of, we need to reach -- we need to  
7 protect those industries that are being affected  
8 by foreign imports that are being unfairly traded  
9 in the United States. So that's sort of the  
10 history of Section 337. And where the controversy  
11 has centered in recent times has been on, okay,  
12 now I'm licensing, but I don't have necessarily a  
13 well developed licensing program, I'm basically  
14 suing on the patents, and that's where the  
15 controversy really is these days. It's not about  
16 the Gremlins type of situation, it's about really  
17 the outer limits of where we can go.

18 MS. MICHEL: Thank you, Christine, did  
19 you have --

20 MS. McDANIEL: Yeah, I'd like to add to  
21 that. I also should note that my remarks here  
22 today are mine and not necessarily those of the

1 Commission or any of its Commissioners. I would  
2 just like to take a step back and let's refocus  
3 our attention on the importance of the, well, the  
4 economics of innovation and the importance of  
5 maintaining incentives to innovate. That's the  
6 main point I thought of today.

7           When I was in grad school, you know, I  
8 remember reading stories about patent trolls, and  
9 then, you know, the Japanese patent regime put a  
10 whole new meaning on patent trolls for me, but  
11 now, you know, you hear NP is non-practicing  
12 entities, and I don't -- I'm not a lawyer, but I  
13 don't see the one to one correlation between a  
14 patent troll and a non-practicing entity like  
15 Tessera. As an economist, I mean you see a real  
16 value added role in the U.S. economy, in any  
17 economy that participates in the global  
18 marketplace, if you will, where the pace of  
19 innovation is increased, different stages of  
20 production, starting with the design and the  
21 innovation have been fragmented. There's a real  
22 role for these non-practicing entities. Not all

1 inventors have a sufficient number of lawyers  
2 behind them to take these cases to the district  
3 court or the ITC.

4 I'm not saying that, you know, there  
5 aren't patent trolls out there that shouldn't be,  
6 you know, that should or should not be paid their  
7 due, but in terms of, you know, I just think  
8 there's a -- we need to recognize or at least  
9 think about the real role of non-practicing  
10 entities in the U.S. economy.

11 Secondly, let's see, what else we were  
12 talking about right after that? I guess that was  
13 the main point, just that the, you know, I think,  
14 there's a real important economic distinction  
15 between patent trolls and non-practicing entities,  
16 and there is a role for non-practicing entities in  
17 terms of bringing an invention to market.

18 When we talk about the economics of  
19 innovation, an innovation is only an innovation,  
20 but it becomes a value to the economy once it's  
21 commercialized. And to the extent that  
22 non-practicing entities play a role in the

1 commercialization of that innovation, that's where  
2 the real value of non-practicing entities comes  
3 in.

4 MS. MICHEL: Barney.

5 MR. CASSIDY: Thanks. I would like to  
6 tie this conversation to the earlier panel, so  
7 bear with me. I don't think it's so much about  
8 non-practicing entities. I think, most companies,  
9 most right thinking people are happy to pay if a  
10 bona fide invention embodied in a patent is  
11 brought to their attention that they practice, and  
12 they pass the cost onto their customers.

13 So, I think, what happens is, we  
14 conflate two different concepts. There's the bad  
15 patents and the non-practicing entity, and we  
16 start bashing non-practicing entities because we  
17 really, really want to bash bad patents.

18 And certainly people who bring patents  
19 that have no merit in order to run a strike suit,  
20 we used to call it a strike suit, to settle for  
21 less than the cost of litigation, you know, is not  
22 -- is a problem, every court has this problem,

1       it's the nuisance lawsuit problem, there's various  
2       shelters in place to deal with it. I'm not  
3       denying it, it's a problem. But the real problem  
4       is bad patents. It is a problem, it is a problem  
5       that the Patent Office needs our help on, and  
6       that's what I'd like to talk about for a minute or  
7       so and connect to the earlier panel. This is an  
8       agency that has something that people want, and  
9       could charge more for it, and could be more  
10      effective, and, I think, we've seen very clearly  
11      under Mr. Kappos' leadership that that is  
12      happening.

13                 But they've had, you know, a \$900  
14      million side-swiping occur from the actions of  
15      Congress confiscating from their past budgets.  
16      They can't possibly turn that ship around without  
17      a huge reengineering and refunding of the agency.

18                 I personally would like to see it as the  
19      NASA of our time. I think, it's that important to  
20      our economy. I think, it is the key to getting us  
21      out of the current economic trench that we're in  
22      and back on our feet, because what does America do

1       today in the world, it creates things that are  
2       largely being manufactured overseas. That's not  
3       going to change immediately, that's a different  
4       problem for a different panel.

5               But Chief Judge Michel of the Federal  
6       Circuit recently gave a speech saying, you know,  
7       it's going to take a billion dollars, I don't  
8       think he's exaggerating, I think, that's about  
9       right, and it's about -- consistent with the  
10      amount of money that was confiscated through fee  
11      diversion over the last decade or so. And that's  
12      what I would urge the joint agencies to be looking  
13      at, ways that we can return this agency to a  
14      status of sexiness.

15              I mean this is a place you want to go to  
16      work if you're an engineer, like NASA was in the  
17      '60s, people are well paid, people have their  
18      educational loans forgiven after a certain amount  
19      of service time so that you can retain people who  
20      are really adding value, it should be  
21      regionalized, so that the talent pools in  
22      California, in Texas, in Michigan, and other parts

1 of the country can be utilized to break up this  
2 backlog and get it back to an agency that grants  
3 rights consistent with the product cycles of the  
4 technologies that it is dealing with.

5 I mean the product cycle comes and goes  
6 before you even get the first office action, it's  
7 crazy. It can be done, but it can't be done  
8 without a huge national effort like we saw in the  
9 space race and so forth. So that's what I would  
10 --

11 MS. MICHEL: You know, I think, we would  
12 all agree that high quality patents, whether  
13 they're in the ITC or in the district court, that  
14 are essentially invalid would create problems and  
15 a drag on innovation. I think, a harder issue  
16 that I'd like to hear everyone's thoughts are, on  
17 this domestic industry requirement, I would guess  
18 that there's broad agreement that a company like  
19 Tessera that innovates and licenses out those  
20 innovations really has established a domestic  
21 industry, and that the harder issue is about the  
22 entities, I'll call them patent holding companies

1       then, those entities that really exist only to own  
2       a patent and only to assert and litigate the  
3       patents, and so that there's no technology  
4       transfer associated with that kind of license,  
5       whereas when Tessera licenses it's really  
6       transferring technology to another company, all  
7       right.

8               But when a patent holding company finds  
9       someone else who's already independently come up  
10      with that idea, there's no technology transfer,  
11      should we look at that kind of business model as a  
12      domestic industry? Any thoughts on that, Bill?

13             MR. BARR: Yeah, there is a distinction  
14      between practicing entities and non-practicing  
15      entities. It's not that non-practicing entities  
16      are bad, it's just that they're different than  
17      practicing entities. If I'm a practicing entity  
18      and someone is infringing my patent, I not only  
19      have sort of the insult or the trespass on my  
20      right that I am entitled to relief about, but I'm  
21      also suffering damage to my business. And I may  
22      be entitled to relief and it may be very easy for

1 me to get injunctive relief, because legal  
2 remedies may not be sufficient because the damage  
3 is being done to me beyond the mere invasion of my  
4 claim to exclusivity.

5 A non-practicing entity, it's not bad,  
6 they're entitled to relief, the question is, what  
7 kind of relief are they entitled to, and what kind  
8 of compensation should they get? Now, most of  
9 them want to be compensated, and what they do is,  
10 they seek a regime where there's likely injunctive  
11 relief going to be afforded them, which they're no  
12 longer going to get in district court because of  
13 eBay, so they go to the ITC to get the in terrorem  
14 effect of a near certain injunction if they can  
15 simply show infringement, and that way they are  
16 excessively compensated, exorbitantly compensated  
17 in a way that actually hurts innovation.

18 After all, the value of a patent should  
19 reflect its economic value over the next best  
20 available alternative, and that's all that a  
21 patent holder could normally expect to receive in  
22 a licensing process as long as the industry that's

1 seeking to license that product hasn't already  
2 sunk costs in and committed itself to the  
3 technology, because it always can move to the next  
4 best alternative if it's free to do so. Allowing  
5 that reward, that is, the actual value of the  
6 degree to which it's an improvement over the next  
7 available technology is all the reward that's  
8 necessary to stimulate innovation.

9 But once an industry has made massive  
10 investments itself in a technology covered by the  
11 patent, then the amount that the industry would be  
12 willing to pay to avoid shutting down completely  
13 are all the switching costs to retrofit its  
14 business to avoid the infringement. It no longer  
15 bears any relationship to the economic value of  
16 the patent that's being asserted, because you're  
17 basically willing to pay up to the amount it would  
18 cost you to shut down your business.

19 So we can get into it in more detail  
20 later, but in Verizon's case, someone buys a  
21 \$16,000 patent that's a little teeny bit of our  
22 entire, you know, most advanced 3G broadband

1 system, and the ITC is perfectly willing to shut  
2 down the business because this \$16,000 patent, you  
3 know, they're willing to kill the kingdom for a  
4 \$16,000 horseshoe, nail, which would have cost  
5 many, many, many billions of dollars, that's  
6 hold-up. And the amount that a company caught in  
7 that position is willing to pay, again, is grossly  
8 excessive and ends up hurting innovation because  
9 the risks are so high of trying to upgrade your  
10 system and bring cutting edge technology into the  
11 marketplace.

12 MS. CHIEN: I think one thing that's  
13 coming out of the different discussions on the NPE  
14 ITC issue is that it's really hard to figure out  
15 and draw a bright line rule for what constitutes a  
16 kind of virtuous patent holder and one that's  
17 non-virtuous. And we've just heard different  
18 narratives and different business models on how  
19 patents may or may not matter.

20 Even -- just to add one, you know,  
21 you've tried to limit the scope of the debate by  
22 saying, well, let's just talk about patent holding

1 companies, maybe we can all agree that they don't  
2 necessarily add a lot of value. I'm staying right  
3 now, visiting from the west coast with a person  
4 who's a venture capitalist, and he just sold some  
5 of his patents for his start ups that were out of  
6 money, but had great products.

7           They had some patents they weren't  
8 using, they sold their patents for a million  
9 dollars to a, I won't name the patent holding  
10 company, to this patent holding company; because  
11 of that money, they're going to be able to  
12 continue on in their business and eventually  
13 commercialize their technology and continue to  
14 operate. So even though patent lawyers are  
15 getting enriched, and there are some exchange of  
16 money that's not going to necessarily result in  
17 innovation and commercialization, some of that  
18 money is potentially going back to the original  
19 inventors who are doing that.

20           Hearing about Tessera's experience with  
21 being a kind of manufacturing or at least an  
22 operating company and then moving into a licensing

1 model, you know, it's really hard to draw that  
2 line when you're talking especially about start  
3 ups, and a lot of companies who shift from being  
4 operating into something else.

5           So, I think, all of this just, you know,  
6 should give us some pause with thinking about the  
7 difficulty of whether, even if we wanted to, weed  
8 out the non-virtuous patentees from the ITC, could  
9 we actually administratively do that. I think,  
10 the ITC, in this coaxial cable decision, says --  
11 basically said we can't draw a bright line rule,  
12 it has to be a case-by-case determination, here  
13 are some factors that we'll consider, even when  
14 we're talking just about litigation costs, which  
15 is, you know, even there they couldn't agree that  
16 naked litigation costs would exclude somebody from  
17 being a holder of a domestic industry. So, I  
18 think, it is very difficult administratively, even  
19 if we could agree that that was a desirable  
20 outcome, to implement such a standard.

21           I think there are a couple other costs  
22 we should consider when thinking about, do we want

1 to put this pressure on the domestic industry  
2 requirement, why don't we put it at the back end  
3 with the, you know, consideration of the granting  
4 of the exclusion order, and those are that the low  
5 kind of threshold for showing domestic industry  
6 does reduce the costs of operating in the ITC.

7 And that was another reason in the 1988  
8 amendments that they decided to reduce the  
9 standard needed to be shown, because it was  
10 cumbersome and it was costly for patentees to  
11 bring their case and show that domestic industry.  
12 Even if they had one that was very obvious, it  
13 wasn't always easy.

14 So if we're going to be trying to just  
15 weed out those few NPE cases, and there haven't  
16 been that many, it's going to increase the cost of  
17 all litigants at the ITC. And as Alice talked  
18 about and reminded us, there still are a lot of  
19 kind of traditional uses of the ITC still  
20 happening, and so we want to, you know, remember  
21 that any changes we make to the domestic industry  
22 requirement are going to affect everybody who uses

1 the ITC. Even companies who are brought as  
2 respondents often are also initiating ITC  
3 litigation, so they're going to be burdened.

4 The other thing I want to bring in,  
5 which has not been really addressed at this panel  
6 so far, is that the ITC, in addition to being this  
7 kind of alternative track for domestic patent  
8 litigation and attracting critics domestically,  
9 has historically been a source of criticism by our  
10 foreign trading partners as a trade barrier.

11 And as recently -- so in the, I think,  
12 it was in the '90s, Canada and the EU brought  
13 cases actually against the U.S. in international  
14 trade court saying the ITC, you're -- domestic  
15 industries, that's protectionism, that's against  
16 the principal of national treatment, and you're  
17 really discriminating against us, and, you know,  
18 kind of in today's free trade world, that's just  
19 not acceptable anymore.

20 But even as recently as the reports in  
21 2010, and earlier in 2009, China and the EU have  
22 listed Section 337 as one of the trade barriers

1       that they're still concerned about. So we still  
2       also have this issue of, we want to make sure what  
3       we do in Section 337 doesn't necessarily worsen,  
4       we want to at least keep those concerns in mind.  
5       So if we're going to increase the barriers to  
6       entry or the barriers to patentees to being  
7       present in the ITC, we also want to make sure we  
8       do it in a way that doesn't look like we are  
9       trying to exclude foreign patentees, which are  
10      entitled to be in the ITC as much as domestic  
11      patent holders as long as they have this domestic  
12      industry.

13               And, I think, this kind of goes back to  
14      this -- at this point, I think, goes back to the  
15      whole issue of what do we want to accomplish for  
16      the ITC. We had this historic purpose of wanting  
17      to protect domestic industry at a time when that  
18      was a good goal that's acceptable. Now is that  
19      really still what we're interested in?

20               Today's panel, the entire day is about  
21      innovation and competition, and so if that's  
22      really going to be our focus and we're thinking

1       about the ITC as part of the patent system, then  
2       that should be kind of the yard stick by which we  
3       measure whether the ITC is working.

4               But I don't think that there is that  
5       clear understanding of what is the policy goal of  
6       the ITC, and so there is a bit of a void there in  
7       thinking about how do we recalibrate the ITC, what  
8       exactly are we trying to accomplish, and, I think,  
9       it would be important to try to come to an  
10      agreement about what that is when we think about  
11      proposals to change it.

12             MR. CHEN:  Thanks, Colleen.  What I'm  
13      hearing today about non-practicing patent owners  
14      and the ITC is a lot of what I heard about NPEs  
15      and district court litigation four or five years  
16      ago, and we seem to be going through exactly the  
17      same kinds of policies and practical challenges  
18      now in the ITC front.  And I guess maybe what  
19      that's engendered now is that you see some NPEs  
20      using district courts as courts of law and then  
21      perhaps the ITC kind of as a court of equity, so  
22      that they can get one kind of remedy over here and

1       then the other kind of remedy over there.

2                   And that just made me wonder what  
3       opportunities are there in the statute to  
4       reevaluate how automatic some kind of exclusion  
5       should be should there be a patent infringement.

6                   I guess what I'm wondering is, maybe you  
7       can look at it and say maybe there's a public  
8       interest element before you automatically go  
9       exclusion, maybe there's domestic industries with  
10      a capital D and an I, and then there's another  
11      domestic industry with a little D and a little I,  
12      I don't know, I just want to open that up for the  
13      panel.

14                  MS. MICHEL: Yeah, Colleen, could you  
15      talk a little bit about how those -- unless  
16      provisions have been used at the ITC? It says an  
17      exclusion order shall issue unless -- under the  
18      ITC's consideration of public health and welfare,  
19      competition in the U.S. and U.S. consumers. Is  
20      that a place where we can put some of these  
21      concerns about injunctions that you said were  
22      perhaps a little too heavy to put just in the

1 domestic industry requirement?

2 MS. CHIEN: Yeah, and Barney actually,  
3 was the one who pointed out at the beginning of  
4 the panel that 1337D, one, does say that unless  
5 these -- the effective -- these exclusion upon  
6 these different things militates otherwise, you  
7 will give an injunction based -- exclude.

8 Historically, the Commission hasn't really engaged  
9 in too much of a, as far as I know, hasn't really  
10 -- used it to deny giving an exclusion order, and  
11 the presidential veto has also been used very  
12 infrequently.

13 Of those two presidential veto versus  
14 Commission doing this balancing, I think, the  
15 Commission is probably the more appropriate place.  
16 And Alice can probably speak of it, too, because  
17 she's practiced in ITC so much. But I don't think  
18 that the Commission really -- it's considered that  
19 once you get that -- you get that exclusion order,  
20 you have an exclusion order.

21 MS. KIPEL: I will, because, in fact,  
22 the ITC has indicated that it is going to be

1 taking a harder look at the public interest  
2 factors that are a part of the statute, as people  
3 have said. There are actually two points during  
4 which, in the 337 process, public interest or  
5 public policy are considered, one is the ITC  
6 considers that issue in determining whether relief  
7 should not be issued. And also, during the  
8 presidential review phase, the President examines  
9 the relief that was ordered by the ITC for policy  
10 issues to make sure that, for policy reasons, he  
11 doesn't want to disapprove the relief that was  
12 issued.

13 It also comes into play particularly  
14 when general exclusion orders are involved. The  
15 ITC tends to take a harder look at public interest  
16 concerns because they understand that the relief  
17 that they would be ordering is, some have said  
18 draconian, but it's very broad, and it will hit  
19 all "infringing imports" of that product at the  
20 border. So public policy has played a -- or  
21 public interest concerns have played a bigger  
22 role, and also with respect to relief against

1 downstream products. Obviously, there's a fair  
2 amount of controversy surrounding the ITC's orders  
3 when they've covered downstream products. The  
4 Federal Circuit spoke on the issue in the Kyocera  
5 decision, and there's still going to be a fair  
6 amount of litigation over how far can the ITC go  
7 when it comes to downstream products, and clearly  
8 that's an issue, and that is an area where the  
9 practice has been involving, public interest  
10 factors are considered, perhaps they need to be  
11 considered more, and perhaps the ITC is going to  
12 shift what it does with the downstream products,  
13 in part, as a result of Kyocera, and, in part,  
14 perhaps as a result of some of these types of  
15 issues that have been raised here.

16 So, clearly, the downstream product  
17 issue is one that's out there and that the ITC  
18 recognizes, does raise public policy concerns and  
19 disruption of legitimate trade and those sorts of  
20 concerns.

21 But the ITC has definitely sent the  
22 signal that they are going to start to look at the

1 public interest considerations with greater  
2 scrutiny, perhaps gathering more evidence on those  
3 factors, because in the past, yeah, some orders  
4 have either been disapproved by the President for  
5 policy concerns or some orders have not been  
6 issued or at least been tailored in a different  
7 sort of way because of public interest concerns,  
8 but it hasn't been as vital an area as some of the  
9 other prongs of the statute, so, I think, we are  
10 going to see a change in that.

11 MR. BARR: Well --

12 MS. MICHEL: Yes -- take audience  
13 questions.

14 MR. BARR: Okay. Well, to the extent  
15 the ITC should be granting injunctions at all,  
16 they certainly should be following traditional  
17 equitable considerations. And although they have  
18 previously suggested that somehow the statute  
19 modifies traditional equity principles that sort  
20 of requires them to provide almost automatic  
21 relief, if you look at the statute, that's not --  
22 that's clearly not the case.

1           The statute specifically says that all  
2       equitable defenses shall be available in all  
3       cases. And then in the provision relating to  
4       exclusion orders, it has this very capacious  
5       language that brings in, you know, market  
6       conditions, consumer welfare, and you know, public  
7       interest, the two that obviously incorporates a  
8       lot of the considerations that would be  
9       traditionally considered by an equity court. But  
10      I also think that the fundamental question has to  
11      be asked, which is, we've seen the ITC, which  
12      Congress has repeatedly said, it's not supposed to  
13      be an IP court, it's a trade court that may  
14      incidentally have to decide some IP issues and  
15      essentially a protecting use in the United States,  
16      and we've seen the context in which, I think,  
17      Colleen correctly said was the way it was  
18      originally contemplated was situations where knock  
19      off goods, there's no real dispute over the  
20      validity of a patent or the infringement, but that  
21      all these knock off goods are flowing into the  
22      country, and you know, you're playing whack a mole

1       trying to stop them, and sometimes you don't know  
2       who's sending them in, and you need sort of police  
3       on the border that are empowered to go and look in  
4       the containers and seize the stuff, that's what it  
5       was originally intended to do, and I have no  
6       problem with it in that context.

7                   But in virtually all other cases  
8       involving parties the district court can have  
9       jurisdiction over, and where the dispute centers  
10      on whether there's a valid patent and whether  
11      there's an infringement, there is no need for the  
12      ITC.

13                   And one of the anomalous things you have  
14      is that while everyone seems to recognize and  
15      accept that the only authoritative body that can  
16      reach decisions about -- and can adjudicate  
17      whether or not there is a valid patent and  
18      infringement are the courts. And yet we claim  
19      that somehow we need, in certain cases, if they're  
20      imports, we need expedition and we need total  
21      relief in the sense of, you know, assured  
22      injunction.

1                   And what that does, when you go into  
2           that channel, is it effectively preempts the  
3           decision in an Article 1 court, because the  
4           injunctive relief is, for all intents and  
5           purposes, final.

6                   And I've been wracking my brain, what is  
7           it about imports that in every case, you should be  
8           able to waltz in there and say I need expedition;  
9           if you really need expedition under equitable  
10          principles, you should, you know, you can get it  
11          in the court.

12                   And what is it about imports that says,  
13          you know, the relief I get should be an  
14          injunction, even if I don't show the traditional  
15          indicia that would justify an injunction? And the  
16          answer is, there's nothing about imports except  
17          the kinds of knock off goods we were talking  
18          about.

19                   And, indeed, if we end up with two  
20          regimes that essentially treat foreign importers  
21          differently and more severely than we treat  
22          domestic infringers, then we have trouble under

1       our international treaties and the GATT Treaty.

2                   MS. MICHEL: Thank you. Let's give  
3       Emily the last word from our panel, and then we'll  
4       have just a minute for audience questions if  
5       anyone has a question.

6                   MS. WARD: Sure, thank you very much.  
7       Just one quick thought as we look at the domestic  
8       industry requirement for bringing ITC actions and  
9       sort of listing, I thought it was very  
10      instructive, sort of Alice relating the changes in  
11      the codification as a result of Warner Brothers  
12      and other cases.

13                   One thing that, I think, we should sort  
14      of consider is, if you were to look at Warner  
15      Brothers, you know, they're making the movie, The  
16      Gremlins, they're trying to protect, you know,  
17      others from, if you will, importing infringing  
18      articles, you would actually consider them, not to  
19      go back to this, but to go back to a practicing  
20      entity, you would actually consider them someone  
21      who's trying to protect themselves from their  
22      competitors basically stealing off, sending in

1       pirated items and selling them in the U.S. and  
2       making a profit off of their movie, right. If you  
3       look at some of the other types of entities that  
4       typically get relief, in the district court, after  
5       eBay v. Merc Exchange, that may not be considered  
6       your typical manufacturing type of entities, say,  
7       for example, research institutes, universities,  
8       they still get relief after the eBay v. Merc  
9       Exchange case in district court.

10               It's actually more your pure NPEs that  
11       don't get relief. I think, the eBay v. Merc  
12       Exchange decision has really provided a lot of  
13       certainty, much more certainty than there used to  
14       be about who will and who will not get an  
15       injunction in the federal district courts, and  
16       wherever there's certainty, there is a lowering of  
17       litigation expenses; when there's lowering of  
18       litigation expenses, that actually does promote  
19       competition and innovation, because the less  
20       money, frankly, that you're spending and sending  
21       out to lawyers and litigation firms, pardon all  
22       the people, but the more money you can actually

1 spend on true R&D and actually promoting your  
2 innovations.

3 So I wanted to leave people with that  
4 closing thought in terms of if Congress decided to  
5 tighten up the domestic industry requirement for  
6 bringing an ITC action, there's actually a lot of  
7 support for it, I think, a lot of positive case  
8 development in terms of what's happened in  
9 district court in terms of similar analogies and  
10 similar thoughts that perhaps we can look at and  
11 see that there has actually been a very  
12 constructive benefit to the U.S. economy from  
13 things like the Merc Exchange decision and  
14 applying those similar thoughts perhaps to the  
15 ITC. Thank you.

16 MS. MICHEL: We have time for one  
17 question from the audience. Yes, please.

18 MR. ROSENZWEIG: Sid Rosenzweig from the  
19 General Counsel's Office of the ITC. And it's  
20 unfortunate that this panel, which was originally  
21 a little bit about innovation, we have an  
22 economist from the Commission there, has to rebut

1 the legal arguments of the former Attorney  
2 General, but, I think, it's important when we  
3 discuss criticisms of the Commission to  
4 distinguish between criticisms of the Commission's  
5 organic statute and criticisms of the Commission's  
6 own actions.

7 The Commission's mandate has changed  
8 over the years. We don't live in a world where  
9 the Commission's goal from Congress is only to  
10 exclude knock off goods against foreigners, okay,  
11 we know that from the 1994 amendments. And if we  
12 attempted to restrict our jurisdiction to that, we  
13 would get shot down as a matter of statutory  
14 interpretation. We would also probably be found  
15 to violate our treaty obligations. And then  
16 secondly is, the statute is replete with the word  
17 "shall": The Commission shall institute an  
18 investigation, the Commission shall exclude goods  
19 that infringe. And to the extent that there's an  
20 overtone here that the Commission errors because  
21 it somehow aggrandized power for itself, it's  
22 quite the opposite.

1           In the instances where the Commission  
2       has tried to interpret this mandatory shall  
3       language in a discretionary way, in a way that  
4       would make Mr. Barr and his former company maybe  
5       pretty happy, the Commission has been shot down,  
6       the federal circuit has said shall means shall,  
7       you've got to do what you've got to do.

8           I don't see the flexibility in the  
9       statute that Mr. Barr does. I also don't see the  
10      constitutional issue with administrative  
11      adjudications, not only at the ITC, but across the  
12      board at the FCC and FERC, and that's it.

13           MS. MICHEL: Thank you very much for  
14      that. We really appreciate that insight. With  
15      that, I think, we'll adjourn for lunch and come  
16      back here at 2:15 for a very interesting standard  
17      setting panel. Thank you.

18                           (Whereupon, at 12:55 p.m., a  
19                           luncheon recess was taken.)

20  
21  
22



1                   COMMISSIONER RAMIREZ: Thank you, Arti,  
2                   and good afternoon, everyone. On behalf of all  
3                   three sponsoring agencies, I'd like to thank you  
4                   again for attending today's workshop. And on  
5                   behalf of my fellow FTC Commissioners, I would  
6                   also like to extend our thanks to everyone who's  
7                   been involved in organizing today's events. I'm  
8                   especially pleased to be participating in a  
9                   conference that is focused on issues at the  
10                  intersection of patent and competition policy.  
11                  And as an FTC Commissioner, I intend to devote a  
12                  great deal of attention to these issues involving  
13                  intellectual property and competition in light of  
14                  my own background in that area and the long  
15                  standing importance of these issues to the  
16                  Commission's competition agenda.

17                  This next session features a star  
18                  studded group of panelists who have been grappling  
19                  with standard setting issues for many years and  
20                  from a variety of viewpoints. The discussion is  
21                  going to be led by two experts in the field,  
22                  Frances Marshall, special counsel for intellectual

1 property at the Antitrust Division, a position  
2 that she has held since 2002. In that capacity,  
3 Frances advises the division on a wide range of  
4 matters in which competition, IP, line policy  
5 intersect.

6 Will Tom currently serves as the FTC's  
7 General Counsel and has also held a variety of  
8 other positions in both government and in the  
9 private sector. Notably, he was a principal  
10 drafter of the 1995 Guidelines for the Licensing  
11 of Intellectual Property issued jointly by the FTC  
12 and the Justice Department.

13 Frances and Will have both been heavily  
14 involved in advancing scholarship and encouraging  
15 the dialogue about the complimentary goals of  
16 antitrust and IP law, and they will, no doubt,  
17 continue in that vein today.

18 I know that the panel is going to be  
19 diving into a detailed analysis of some of the  
20 most difficult IP and competition questions that  
21 surround the issue of standard setting. My goal  
22 is simply to provide a framework for the panel's

1 discussion, especially for IP lawyers who may not  
2 be used to thinking about standard setting through  
3 a competition lens.

4 Standard setting is generally good for  
5 consumers, industries and society as a whole.

6 Particularly in the high tech and network  
7 industries, standards facilitate interoperability  
8 among products supplied by different firms.

9 Interoperability spurs competition, and that's, of  
10 course, good for consumers.

11 Sometimes standards arise de facto from  
12 vigorous winner-take-all marketplace competition.  
13 But de facto development of marketplace standards  
14 is not always efficient. Innovators may be  
15 reluctant to invest in R&D until they know which  
16 standard will dominate the market. And consumers  
17 may delay their purchases until one standard wins.  
18 If the marketplace uncertainty suppresses or slows  
19 the development of new technologies, consumers may  
20 suffer. This is precisely why many industry  
21 participants turn to the development of standards  
22 through standard setting organizations, where

1 members choose industry standards through  
2 collective decision-making.

3 But here, too, standard development is  
4 not without a risk of harm to consumers. The SSO  
5 members are typically marketplace competitors, and  
6 as part of the standard setting process, members  
7 reach joint agreements about important dimensions  
8 of competition. This is the type of behavior that  
9 typically will raise red flags under antitrust  
10 law.

11 The courts and the antitrust enforcement  
12 agencies do recognize, however, that unlike naked  
13 restraints such as price fixing and market  
14 division, collaborative standard setting can be  
15 good for consumers. Therefore, SSO activity is  
16 usually evaluated under the rule of reason while  
17 benefits to consumers from coordinated action  
18 among competitors are weighed against the  
19 potential of harm -- the potential harm of lost  
20 competition.

21 Consensus standard setting also  
22 generates the risk of patent hold-up, which can

1 occur after industry participants incur some costs  
2 to develop products that comply with the standard.  
3 The owner of a patent that reads in a standard may  
4 be able to charge more for its technology ex post  
5 some cost expenditures than it could have charged  
6 ex ante, when there may have been multiple  
7 technologies competing to become the standard. If  
8 ex post super competitive royalties are passed on  
9 in the form of higher prices, consumers are the  
10 ones that ultimately suffer.

11 Some SSOs attempt to mitigate the risk  
12 of hold-up by formulating patent policies that  
13 impose various duties on SSO participants. These  
14 would include disclosure of essential patents ex  
15 ante, disclosure of key licensing terms, or a  
16 commitment to license central IP on RAND terms.

17 Another proposed solution to the problem  
18 of hold-up that our panelists will be discussing  
19 is ex ante joint negotiation of royalty rates by  
20 SSO members as part of the standards adoption  
21 process.

22 The federal antitrust agencies have

1 concluded that legitimate joint ex ante  
2 negotiations generally should be subject to rule  
3 of reason analysis and not condemned outright. Ex  
4 ante licensing negotiations cannot, however, be  
5 used as a sham to cloak bid rigging or other  
6 activities that typically are viewed as per se  
7 unlawful. The Commission has brought several  
8 cases alleging harm to competition in the SSO  
9 context associated with hold-up, including the  
10 Dell, Unocal and Rambus cases, which involved the  
11 failure to disclose relevant IP. In examining  
12 possible solutions to the problem of patent  
13 hold-up, one thing is clear, there is no single  
14 answer. To the contrary, competition policy  
15 supports an experimental approach so that  
16 different industries can better evaluate which  
17 types of policies will work best for them. Our  
18 panelists will delve more deeply into the factors  
19 that influence SSO patent policy.

20 But before I turn the discussion over to  
21 the panel, I would like to conclude with two  
22 thoughts regarding the international dimensions of

1 standard setting. In a global economy, consumers  
2 may derive great benefit from the worldwide  
3 adoption of technological standards. But if  
4 different foreign jurisdictions mandate different  
5 policies for SSOs, it may become more difficult  
6 for SSOs to experiment across borders.

7 As other jurisdictions explore standard  
8 setting issues, it will be necessary for us to  
9 continually evaluate the potential impact on U.S.  
10 Policy choices and to react accordingly. And  
11 finally, I think, it also bears noting that other  
12 jurisdictions will be watching us, just as we  
13 watch them. The rest of the world scrutinizes  
14 U.S. competition law and policy and often takes a  
15 lead from our direction. This raises the stakes  
16 as we attempt to get it right on issues relating  
17 to standard setting. And I know that our panel is  
18 up to that challenge. I will let Frances and Will  
19 take it from here. Thank you very much and enjoy  
20 the rest of today's conference.

21 MR. TOM: Thank you very much,  
22 Commissioner Ramirez, for that wonderful overview

1 of the tricky issues we have to deal with today.  
2 And as Commissioner Ramirez said, Frances Marshall  
3 and I will be jointly moderating this program.  
4 I'm just going to give the traditional disclaimer  
5 and then turn it over to Frances to introduce the  
6 panelists and maybe do a little bit of additional  
7 stage setting and then we're going to plunge right  
8 into questions.

9 So as should be obvious, and maybe I  
10 won't have to say this as I intend only to ask  
11 questions, but in the event I inadvertently let  
12 any of my own thoughts escape my lips this  
13 afternoon, they really are only my own thoughts  
14 and do not necessarily reflect those of the  
15 Commission or any individual Commissioner.

16 And with that, let me turn it over to  
17 Frances.

18 MS. MARSHALL: Thank you, Will. And I  
19 should first start off with the same caveat so  
20 we're on equal ground there. We're so very glad  
21 that all of you have come here today to join us  
22 for this discussion on standards, and, I think,

1 we've got a really exciting panel to talk about  
2 these issues with you today.

3 And for that I'd like to say we owe  
4 thanks to Phil Weiser, who is currently a senior  
5 advisor to the National Economic Council's  
6 Director for Technology and Innovation for helping  
7 us in putting together this panel.

8 These are people with wonderful  
9 accomplishments in their professional lives and  
10 they are all set forth for you in their  
11 biographical statement, so I'll keep my  
12 introductions brief, but I do want you to know  
13 who's up here.

14 So starting from my far left, we have  
15 Mark Chandler, who is senior vice president,  
16 general counsel and secretary of Cisco Systems,  
17 the world's leading supplier of internet  
18 infrastructure and telephone equipment. And Mr.  
19 Chandler sets Cisco's legal strategy and manages  
20 Cisco's intellectual property and litigation  
21 matters.

22 Sitting next to Mark is Dr. Pat

1       Gallagher, who is the director of the U.S.  
2       Department of Commerce and National Institute of  
3       Standards and Technology, or NIST, which promotes  
4       U.S. innovation and industrial competitiveness by  
5       advancing measurement science, standards and  
6       technology, located -- are you in Gaithersburg?  
7       Is that the direction I -- when I come down 270, I  
8       always notice that NIST is there. And he is also  
9       co-chair of the NSTC Subcommittee on Standards  
10      that was mentioned by Mr. Chopra this morning.

11                 Sitting next to Pat is Anne  
12      Layne-Farrar, a director at the economic  
13      consulting group, LECG, and she specializes in  
14      intellectual property and antitrust matters. And  
15      one of her particular foci over the years has been  
16      assessing economic incentives and firm behavior  
17      within standard setting organizations.

18                 Sitting next to Anne is Brian Kahin, who  
19      is a senior fellow at the Computer and  
20      Communications Industry Association in Washington,  
21      D.C., and is also an adjunct professor at the  
22      University of Michigan School of Information. And

1 his work focuses on patent policy, standards, open  
2 source and innovation policy. Maybe you're seeing  
3 a pattern here.

4 Then moving over to my right is Stan  
5 McCoy, who is the Assistant U.S. Trade  
6 Representative for Intellectual Property and  
7 Innovation at the Office of the U.S. Trade  
8 Representative, where he's responsible for  
9 developing and implementing U.S. trade policy and  
10 intellectual property. So in addition to the  
11 antitrust issues, the general standards issues,  
12 we're going to be also talking about how these are  
13 influenced by trade policy.

14 Sitting to Stan's left is Amy Marasco,  
15 who is the general manager for standards strategy  
16 at Microsoft, where she leads a team that  
17 addresses strategic standards policy on a global  
18 basis. And so she regularly debates issues  
19 related to intellectual property policy at lots of  
20 international standards bodies, and I'm sure in  
21 that capacity she draws on her expertise as the  
22 former General Counsel of the American National

1 Standards Institute.

2 And then rounding out our panel is Doug  
3 Melamed, who is senior vice president and general  
4 counsel at Intel Corporation, where he oversees  
5 all Intel's legal matters. And among his many  
6 accomplishments is that he served at DOJ from 1996  
7 to 2001 as acting Assistant Attorney General in  
8 charge of the Antitrust Division and as Principal  
9 Deputy Assistant Attorney General. It's a  
10 pleasure to have all of you here with us today.

11 Just as a couple of housekeeping  
12 matters, I think, it helps the microphones if our  
13 panelists turn off all of their electronic gear  
14 and that if each one of us remembers to turn on  
15 the microphone when we want to speak, okay.

16 So let's get started. There are  
17 literally tens of thousands of patents in  
18 existence globally, some more important than  
19 others, and they are widely acknowledged to be one  
20 of the engines driving our modern economy.

21 You know, we've heard multiple times  
22 they can increase innovation, they do increase

1 innovation, efficiency and consumer choice, they  
2 foster public health and safety, and they make our  
3 networks more valuable by allowing products to  
4 interoperate. And, I think, what we'll see today  
5 is a lot of the standard issues that we're  
6 concerned about really tend to occur in those  
7 standards that are devised to promote  
8 interoperability.

9           And then, as we said, standards can play  
10 an important role in shaping the flow of  
11 international trade. So we're going to start  
12 today by discussing standards, innovation,  
13 competition and intellectual property generally,  
14 and then we're going to drill down on some of the  
15 competition concerns that have arisen as more  
16 standards have incorporated intellectual property  
17 rights, creating opportunities for patent holders  
18 to engage in hold-up. And what do we mean by  
19 that, but the opportunity to reap higher rewards  
20 after a standard is set than it might have had  
21 before competing technologies -- than it might  
22 have had competing with alternative technologies

1 before the standard was set and the costs of  
2 switching to another technology have increased,  
3 and as the standard setting organizations,  
4 implementers and government agencies have tried to  
5 mitigate this potential, so we're looking both  
6 potential and at the mitigating strategies. And  
7 then, as I said, we'll try and, you know, tie all  
8 of this into trade policy.

9 So Will and I are going to attempt to  
10 guide the discussion through some keenly asked  
11 questions, and I'm going to turn it over to Will  
12 to start our panel off.

13 MR. TOM: All right. Well, let's start  
14 with a question for Dr. Gallagher, since we're  
15 fortunate enough to have someone with the broadest  
16 perspective on what the federal government does in  
17 the standards area. Dr. Gallagher, can you  
18 provide your perspective on how the government is  
19 addressing these issues at the intersection of  
20 standards, innovation, competition and  
21 intellectual property?

22 DR. GALLAGHER: Thank you. I should

1 warn you that a broad perspective is also  
2 associated with shallow depth, so -- but, yeah, I  
3 think -- I'd like to follow up on a thought that  
4 Commissioner Ramirez so eloquently sort of started  
5 with, which is that standards, for me, are so  
6 interesting and so exciting because they are  
7 occurring on the confluence of so many things. So  
8 standardization has a critical role in technology.

9 We understand how it plays a role in  
10 setting the conditions for technology to develop.  
11 It plays a critical role in defining the markets  
12 under which things compete. It has a critical  
13 role in defining trade. It has a critical role in  
14 defining the technology that government agencies  
15 use.

16 And so very much like you've heard the  
17 story about five blind men describing an elephant,  
18 very often in standardization you hear these very  
19 strikingly different perspectives depending on the  
20 lens with which somebody is viewing this process.

21 And I start out with that thought  
22 because, I think, the same thing is happening on

1 the federal side. One of the interesting things  
2 that has occurred over the last year and a half is  
3 an incredible focus on standards within the  
4 federal agencies. And you heard from Aneesh  
5 Chopra this morning, from the President's chief  
6 technology officer, that one of the priorities  
7 within the National Science and Technology Council  
8 has been to put together a very high level  
9 interagency committee looking at standards. This  
10 is the first time for that, and, I think, the  
11 reason for that has to do with this confluence of  
12 interest.

13 So what's happening is that the  
14 government itself is finding the technology it  
15 needs to address urgent priorities, whether that's  
16 energy, whether that's promoting health care  
17 quality, whether that's promoting cyber security,  
18 whether there's a whole, you know, list the  
19 activity, is finding that it has a deep interest  
20 in the form of the technology that's available to  
21 the federal agencies.

22 The National Technology Transfer

1       Advancement Act directs federal agencies to look  
2       to the private sector for that technology and for  
3       the standards that it needs. And so, one of the  
4       things we found is that because of this confluence  
5       of these technologies, and by the way, these  
6       technologies now are large technology systems,  
7       they're not single commodities that we're trying  
8       to buy, that we needed -- we found that the same  
9       confluence was basically bringing a lot of federal  
10      interest to the -- and so it was very important  
11      that we had a forum for working together across  
12      agencies, and that's why, I think, you see  
13      standards now at the White House level. So, I  
14      think, that, you know, the focus has really been  
15      initially on trying to bring together all of these  
16      different viewpoints on standards into a place  
17      where, at least on the federal side, we can begin  
18      to have some discussions about the technology  
19      needs we have and make sure that's communicated to  
20      the private sector, that we can explore the impact  
21      that these standards have on markets and trade,  
22      and so what we have is a leadership level

1 interagency committee that has very broad  
2 participation from mission-based federal agencies,  
3 technology agencies like NIST, intellectual  
4 property trade agencies, everybody brought  
5 together, and it provides a leadership forum for  
6 us to begin to engage in some of this.

7 So it's not really to signal anything  
8 other than -- this is not a change in direction,  
9 this is still about us looking to the private  
10 sector, but this is really about the fact that  
11 these have become critically important and how do  
12 we partner very effectively.

13 MS. MARSHALL: Thank you, Pat. So let's  
14 turn now to our antitrust patent focus and drill  
15 down there a little bit and then maybe open up  
16 more broadly. And one of the questions that we  
17 think about when we think about standards is, and  
18 where antitrust has played a role is in this issue  
19 of hold-up within standard setting organizations.  
20 And we mentioned earlier that there are many, many  
21 standards, and one question that we'd like to  
22 start off with is trying to get a grip on how big

1 is the problem, what is the scope of the problem  
2 that we're talking about, does it vary by type of  
3 industry or technology, does it vary by the level  
4 of sunk investment by firms, or does it vary by  
5 business models? So I'd like to open that up to  
6 anyone who's interested in trying to define the  
7 scope. Amy, do you want to lead us off there?

8 MS. MARASCO: Well, I think, that the  
9 issue of hold-up, first of all, what is hold-up is  
10 an important question to ask because it's a term  
11 that, I think, is applied broadly to a wide range  
12 of potential activities. So, for example, you can  
13 have a patent holder who intentionally is not  
14 making a disclosure about a patent that they know  
15 that they have, that they also believe is  
16 essential to a standard, so it's a hide the ball  
17 type of mentality, and then you have other  
18 situations where maybe the patent holder actually  
19 made disclosures to the standards body, said we  
20 have essential patents that likely will read on  
21 this standard, and even make a licensing  
22 commitment, and later there's a dispute as to

1       whether or not those terms are, in fact,  
2       reasonable and non-discriminatory. So there's a  
3       wide range of potential behaviors by patent  
4       holders that could be brought into question.

5               At the same time, there also are  
6       behaviors by the would-be implementers who are  
7       seeking the licenses. Did they sit back, did they  
8       tell the patent holder they weren't willing to pay  
9       money for the patents? So, in other words, these  
10      have all become very factually specific and, I  
11      think, have to be looked at, to some degree, on a  
12      case-by-case basis.

13             But in terms of certainly my experience,  
14      I think, we're all aware with some of the cases  
15      that have been brought to bear, where there have  
16      been allegations that a patent holder has not  
17      engaged appropriately in terms of their patents  
18      and are seeking perhaps royalties or other  
19      licensing terms that people believe are  
20      unreasonable.

21             And, I think, those are very prominent,  
22      either because they've been brought by the FTC or

1       they've been otherwise litigated and are well  
2       known to the standards community. And they are  
3       there, they are real, but they also are very small  
4       in number. So as you mentioned, Frances, there  
5       are tens of thousands of IP standards and there  
6       are probably less than a dozen of these cases over  
7       the past 15 years. So it doesn't suggest that the  
8       problem isn't there, that it's not a possibility,  
9       but it also suggests that perhaps there are some  
10      forces in the ecosystem that cause most patent  
11      holders to behave reasonably well.

12               And I might suggest some of them, it  
13      certainly wouldn't be an exhaustive list, but many  
14      patent holders are also implementers. There's an  
15      ecosystem here of cross licensing, of all sorts of  
16      commercial relationships that come to bear.

17               The other thing is that standard setting  
18      is largely a very visible type of a thing. So  
19      however a patent holder or an implementer will  
20      behave is not going to be done, you know, outside  
21      of the visibility of others. And so, I think,  
22      that people are aware of that. And it's my

1       experience that most companies try very hard to  
2       adhere to the policies and procedures of standards  
3       bodies, because they are concerned that if they  
4       don't, that could result in potential litigation  
5       or other issues. And the system works because  
6       most of the participants are trying very hard to  
7       adhere to the rules. Thank you.

8               MR. KAHIN: In some ways, I think, we're  
9       approaching this, and this is natural because we  
10      have -- we're talking in terms of antitrust, sort  
11      of fixing problems after they arise. So how big  
12      are the problems? Well, we don't see too many of  
13      them, maybe they're not too big. I think, there's  
14      some fundamental structural problems in the way  
15      that patents and standards work together that we  
16      should sort of address from a positivist  
17      perspective.

18             Somebody used the term technology  
19      transfer this morning, is there real technology  
20      transfer? Well, in a fundamental sense, standards  
21      development, the process of standards development  
22      is about collaboration. And the administration

1 has made a big thing about collaboration in the  
2 government context.

3 And interestingly, one of the -- the  
4 poster child for collaboration, at least  
5 originally, was the Peer to Patent Project, but  
6 standards is a very well established process for  
7 collaborating, and it works, as Amy was saying,  
8 because a lot of these people are big repeat  
9 players and they are concerned about reputation  
10 and all.

11 But we have a competitive environment  
12 which has been termed open innovation very broadly  
13 and that there's an unbundling of companies, a  
14 globalization, a lot of very small players who do  
15 not necessarily have the same interest in the  
16 continuation, and building confidence in the  
17 process. There are a variety of different  
18 business models, some of which are looking to hold  
19 up large companies that have put a lot of money  
20 into developing products, and by extension of  
21 holding up standards, which is whole industries  
22 developing products, that becomes a very tempting

1 target.

2 So the fundamental question has to do  
3 with technology transfer. Does knowledge about  
4 technology move efficiently, is it susceptible to  
5 hold-up? So there are really some very  
6 fundamental questions about the two processes and  
7 whether the collaborative process that gives us  
8 standards is aligned with the process that creates  
9 patents.

10 And I want to suggest two fundamental  
11 ways that they are not aligned. One is the  
12 standard by which these standards or patents are  
13 created. With standards, we have essentially a  
14 peer review process. This is a common  
15 conversation that's -- because it involves many  
16 experts from different companies, is going to be  
17 at the very highest standard of standards.  
18 Whereas patents are an ex party process where the  
19 standard -- the threshold standard is, does this  
20 person have ordinary skill in the art? That's a  
21 journeyman standard. In my view, in the long  
22 term, we have to move to a proper peer review

1 standard. That's the gold standard for evaluating  
2 technology in other areas, it's the gold standard  
3 for evaluating government programs, and until we  
4 move to a higher standard of patentability, we're  
5 going to run into conflicts with the patent  
6 process, the standards process. So I'll stop  
7 there.

8 MS. MARSHALL: Anne.

9 MS. LAYNE-FARRAR: I just wanted to add  
10 a bit of a clarification on the problem that is  
11 perceived as hold-up, and that is, what most  
12 people are thinking about when they're thinking  
13 about setting policies or rules within standard  
14 setting bodies is to provide enough information to  
15 the members, to the participants of that standard  
16 setting effort so that implementers can have a  
17 sense of what intellectual property they might  
18 have to license at the end, and so that licensors  
19 can know who's going to be implementing and can  
20 get a sense of who they need to seek licenses  
21 from.

22 And so in a rush to solve a perceived

1       problem over hold-up, we can actually make matters  
2       worse if we're not careful in how we structure the  
3       rules. And by that I mean too much information,  
4       too much disclosure is not helpful. So if you  
5       make rules such as disclose it or lose it, you  
6       might create incentives whereby if you don't  
7       disclose your intellectual property that turns out  
8       to be essential to the standard, you have to  
9       license it on a royalty-free basis. You might  
10      push them, IPR holders, to make blanket  
11      disclosures. We have IPR, anything we have we'll  
12      license on RAND terms. Well, you then know who  
13      the company is that's an IPR holder, but you  
14      really know nothing about what they think the  
15      specific IPRs that are relevant for that standard  
16      are.

17               Or you might get, at the other extreme,  
18      and, I think, we saw this as a result of some of  
19      the FTC cases, that IPR holders start disclosing  
20      everything. When in doubt, dump it all in, put it  
21      in as potentially essential, and then you have a  
22      whole slew of patents listed as potentially

1       essential for a standard, and it's really  
2       difficult for the participants to know which ones  
3       really are and which ones are just there for  
4       insurance.

5               So, I think, we need to be careful in  
6       thinking about solving this problem, what's the  
7       underlying problem, what are the incentives that  
8       an attempt to solve that problem create, and are  
9       we actually going to make matters worse?

10              MR. TOM:   So does that mean the problem  
11       is getting worse or getting better?   I mean one  
12       theory out there is that, you know, this is just a  
13       matter of growing pains and the standards bodies  
14       have figured out that there's this potential for  
15       hold-up and they're figuring out ways to deal with  
16       it on their own.   So maybe the hold-up problem,  
17       you know, whatever size it was before, is going to  
18       be less going forward.

19              On the other hand, you know, what I'm  
20       hearing you say is that some ways of trying to  
21       solve the problem are taking us in the wrong  
22       direction rather than the right one.   And I see

1 Doug itching to jump in, so Doug.

2 MR. MELAMED: Yeah, I'll answer your  
3 question in a sense and then I want to go back to  
4 some of the broader points that Amy and Brian  
5 mentioned. In my experience and to my knowledge,  
6 and since I haven't been at Intel long, I don't  
7 have the kind of background in standard setting  
8 that someone like Amy has, I think, the notorious  
9 cases that we know about are probably few, and  
10 that this is not an endemic problem at standard  
11 setting bodies.

12 On the other hand, I think -- and, I  
13 think, it's probably -- it's likely to diminish  
14 with changed rules and private ordering by  
15 standard setting bodies and a little bit of trial  
16 and error, mindful of the kinds of concerns that  
17 Anne was referring to. But, I think, the problem  
18 of hold-up is a huge problem, because, I think,  
19 patent holders, non-practicing entities, but not  
20 just non-practicing entities use patents  
21 strategically, after firms have incurred some  
22 costs, not necessarily because of the product of

1 standard setting, but maybe because of marketplace  
2 factors, and so there's an enormous and very  
3 costly strategizing that goes on by all companies  
4 about what patents do I have, how do I use them  
5 defensively, when do I assert them, and what do I  
6 do if someone asserts against me?

7           And it seems to me that if we're  
8 concerned about the hold-up problem, the principal  
9 focus ought to be on the broader ways in which  
10 patents are susceptible -- being used for hold-up  
11 rather than just some standard setting bodies  
12 which themselves have their peculiar difficulties  
13 and also have organizations attempting to deal  
14 with private solutions.

15           Two things come to mind, one, and this  
16 is not new, these are suggestions that have been  
17 around for a long time, one, we've got to improve  
18 the quality of patents, because it is the huge  
19 number of crummy patents that are being issued  
20 that complicate the strategies for all companies  
21 because they have to deal with somebody else's  
22 crummy patents being asserted against them. And

1       then, of course, the strategic incentive to put  
2       together huge inventories of those patents on the  
3       theory that the person against whom you're  
4       asserting might think he can beat back the first  
5       5, he's certainly not going to beat back all 15,  
6       so he cries uncle.

7               And secondly, and maybe more important,  
8       we have to deal with the problem of damages for  
9       patent infringement. And the -- damages are not  
10      well cabined, they are based senselessly, in my  
11      view, on the value of the downstream product  
12      rather than on the incremental contribution of the  
13      technology covered by the particular patent at  
14      issue.

15             And because the potential damage  
16      exposure to the assertion of a patent is in either  
17      one case very large, there's, A, enormous  
18      incentive for hold-up; and B, enormous difficulty  
19      that parties have of dealing with it except by  
20      developing their own arsenal of patents and trying  
21      to have some kind of cross licensing standoff. If  
22      the patent damages law were more precise and

1 narrow and patent damages were, I think, more  
2 economically sensible and it's smaller, it seems  
3 to me that the incentives and opportunities for  
4 hold-up would be correspondingly diminished.

5 MR. CHANDLER: I think Doug has defined  
6 very well the issues that broadly affect the  
7 patent enforcement system generally. I think, as  
8 applied to the context of standards, a special  
9 scrutiny of that is required, because, I think, we  
10 have a patent system to achieve a particular  
11 policy goal.

12 Our founding documents do not speak  
13 about life, liberty, pursuit of happiness and  
14 ownership of patents, instead, patents are in the  
15 Constitution with an industrial policy goal of  
16 promoting progress in science and the useful arts  
17 as a congressionally -- authorizing Congress to  
18 proceed to create a patent system for that  
19 purpose.

20 And, I think, when we look at standards  
21 in particular, the way you defined hold-up at the  
22 outset, Frances is exactly right. It's the fact

1       that the value of that patent right is increased  
2       by the fact that it's incorporated in the  
3       standard, and it's really independent of whether  
4       the patent holder has participated in the  
5       standards process or not, or engaged in deception  
6       or not. Those are clearly important issues in  
7       looking at standards, but they're not the only  
8       issue when it comes to why there's a hold-up. And  
9       that increase in the ex post value of the patent  
10      for a participant or a non-participant, and I  
11      freely acknowledge here that, I think, the  
12      analytical framework that Carl Shapiro and Mark  
13      Lemley laid out with respect to this is  
14      unassailable in terms of the intellectual rigor  
15      behind it.

16                It's that value, I think, there's undue  
17      difference to the intellectual property right and  
18      not enough attention paid to the hidden tax that  
19      that imposes on consumers throughout the economy  
20      is taking back some of the benefit of  
21      standardization that drives technology to fusion,  
22      encourages innovation in the marketplace, and

1 helps people buy products.

2 So, I think, we should be focusing very  
3 closely on that hold-up question as you defined it  
4 and what we can do in a practical way to increase  
5 the amount of information available in standards  
6 bodies and particularly to drive to more  
7 consistent practices.

8 I don't think there is -- there are  
9 growing pains here that are going to be overcome.  
10 We participate in over 100 different standards  
11 bodies. I would say the rules are all over the  
12 map in terms of disclosure of patents, disclosure  
13 of applications, disclosure of things that might  
14 become patent applications, the ability of people  
15 to leverage continuation practice to move away  
16 from the definition that they've given to a  
17 product the first time around so that it becomes  
18 defined later in a way that looks more like a  
19 standard.

20 And, I think, starting to focus on the  
21 way that benefits of the standard process can  
22 reduce the tax that patent holders can leverage

1       against the entire system will produce fruitful  
2       policy results.

3               MR. TOM:   Anne, do you want to respond?

4               MS. LAYNE-FARRAR:   Sure.  I just wanted  
5       to point to a clarification in discussing all of  
6       these issues around hold-up.  I think, in much of  
7       the debate, we sometimes conflate issues about  
8       non-disclosure, which is sort of a deceptive  
9       practice, and then disputes over what is and is  
10      not RAND or FRAND licensing, and I see those as  
11      very distinct issues.

12              Certainly you want to prevent any kind  
13      of gaming of the system and deception and  
14      non-disclosure in an attempt to hold up  
15      irreversible investments and capital investments,  
16      that sort, that's clearly a bad thing for society  
17      as a whole, but when it comes to what is FRAND and  
18      what is not FRAND, there's a lot of room, it's a  
19      huge gray area over what licensing terms and  
20      conditions are, indeed, RAND or FRAND.  And so to  
21      a great extent, that debate is a commercial one  
22      and reasonable parties can have very different

1 views, and, of course, the two parties who are in  
2 debate over a licensing side and a licensee side  
3 are going to see these things differently.

4 We can't assume that simply because a  
5 licensee says, oh, this is a non-FRAND rate, that  
6 it isn't first, indeed, a non-FRAND rate, and  
7 secondly, that it is going to impose a cost on  
8 consumers or society, that will be determined by  
9 the extent of cost pass-through that occurs in the  
10 downstream market.

11 So I don't think we can leap from one to  
12 the other and we just need to be careful that  
13 there are commercial and contract considerations  
14 there and there's room for dispute. I don't think  
15 if you got 100 people in the room and asked them  
16 about a single patent, what's the RAND or FRAND  
17 term for that patent within the standards, you'd  
18 probably get 100 different rates. So there's a  
19 lot of room for a variety there. We need to be  
20 careful not to impose antitrust when perhaps what  
21 would best solve it would be a commercial  
22 approach.

1 MR. TOM: Brian.

2 MR. KAHIN: I just want to make clear  
3 since we're drawing nice, bright lines here, that  
4 the hold-up problem is different from the  
5 institutional rules. The hold-up problem is an  
6 industry-wide problem, it's not limited to  
7 standards. And if you're going to address it in  
8 the standards context, you really have to look at  
9 the non-participants, as well as the participants.

10 So it makes sense to think of mechanisms  
11 that will shield standards efforts from the  
12 outsiders, as well as from the participants. And  
13 one way to do that, which was put out in a paper  
14 that IBM circulated a few years ago, is to have a  
15 process for clearing standards against patents,  
16 and they use principles of latches and estoppel as  
17 a way to do it.

18 But if you institutionalize those kind  
19 of protections, then you solve the non-participant  
20 problem, as well as much of the participant  
21 problem.

22 MS. MARSHALL: Amy.

1 MS. MARASCO: I'd like to make two  
2 points as a follow-on to some of the comments that  
3 we've just heard, and one point is, how are  
4 standards bodies looking at this, and what are  
5 they doing in terms of assessing, do they need to  
6 change their policies, I think, that was part of  
7 the question, is this something more standards  
8 bodies are going to have lessons learned and  
9 advance their policies. And then I'd like to just  
10 touch briefly on the non-participant issue,  
11 because when standards bodies have a patent  
12 policy, it applies to its members and the  
13 participants in its process, and typically those  
14 policies are formulated by the relevant  
15 stakeholders.

16 So most of these standards bodies have  
17 some kind of IPR policy committee open to all  
18 members, and what happens is, these stakeholders  
19 come together, and they have to come to consensus  
20 on what are going to be the rules of the road for  
21 the inclusion of patented technology in those  
22 standards.

1                   And this is very important because those  
2                   stakeholders very often have very different  
3                   business models, different objectives, you know,  
4                   and so -- and they're competitors. The key is, if  
5                   you get them in the room and they come to  
6                   consensus, then you've got a balanced approach  
7                   that's taking into account all of these different  
8                   interests. Because certainly we care about  
9                   innovation and preserving incentives to innovate,  
10                  certainly in technology areas subject to  
11                  standardization, so we want to make sure that  
12                  patent holders are encouraged to come and  
13                  contribute their technology. But at the same  
14                  time, we want to make sure that they're willing to  
15                  share that technology with the implementers, with  
16                  all implementers, on at least reasonable and  
17                  non-discriminatory terms and conditions, if not  
18                  something more favorable. So the key is to find  
19                  that balance and that approach so that we keep  
20                  this equilibrium going.

21                         And in response to something Mark said,  
22                         he's absolutely right, there are no two patent

1 policies out there that are the same, because each  
2 standards bodies brought their stakeholders  
3 together and they're not always going to come up  
4 with exactly the same solution.

5 But there are a lot of commonalities. A  
6 lot of the policies do require patent holders or  
7 encourage patent holders to disclose as soon as  
8 possible. Do you think you have patents that  
9 might be essential for -- or likely to be  
10 essential for the implementation of the standard  
11 when it's done?

12 Of course, you don't know what's going  
13 to be essential until the standard is done, but  
14 they want to encourage early disclosure. So, you  
15 see, if you'd have something that likely is going  
16 to be essential, let us know, that information is  
17 important. And then they're asked will you make a  
18 licensing commitment that you'll be willing to  
19 offer licenses typically on reasonable and  
20 non-discriminatory terms and conditions, and then  
21 that sets up a framework so implementers can  
22 challenge whether or not the terms are RAND. But

1 typically negotiations of those terms are done  
2 outside the standards body.

3 Now, what happens with these standards  
4 bodies is, they are reviewing their IPR policies,  
5 their patent policies all the time, and I have the  
6 frequent flyer miles to prove it. And basically  
7 they watch a lot of what's going on out there.

8 So, for example, when the FTC brought  
9 the N-data case, a lot of them said, you know,  
10 we've never thought about the issue of when you  
11 transfer a patent against which a licensing  
12 commitment has been made. That licensing  
13 commitment likely doesn't move with the patent.  
14 Should the rules, the IPR policies be amended to  
15 try to address that issue? Because we'd like the  
16 commitment to move to the next patent owner.

17 So we had a lot of discussions at  
18 standards bodies about that. And clearly, the  
19 issue of the potential of hold-up comes up. And  
20 standards bodies say, well, getting information  
21 about who has patents is very important and that's  
22 a key step to trying to mitigate against any

1 concern that there will be a surprise patent at  
2 the end and a patent holder who is seeking  
3 unreasonable terms.

4 So some proposals have been made that  
5 say, well, okay, right now there's an effort to  
6 try to have patent holders make these disclosures,  
7 and I mean participating patent holders make  
8 disclosures, and then they make the licensing  
9 commitments.

10 There's also been proposals that say,  
11 well, maybe we should ask those patent holders to  
12 also disclose their licensing terms, the actual  
13 terms to the standards body, and that was called  
14 the ex ante debate, and it's been going on since  
15 about 2002 and is still going on.

16 And should that -- should standards  
17 bodies mandate that those terms be disclosed at  
18 the standards body? Well, there are many  
19 standards bodies that discuss this in great  
20 detail. ETSI, for example, held meetings for over  
21 a year every month, they had 100 people in the  
22 room from around the world, representatives from

1 -- competition, and they're just an example of one  
2 of many standards bodies that did this. And there  
3 was a lot of discussion about would this be  
4 helpful or harmful. And clearly, a lot of people  
5 said, this is going to burden the standards  
6 process because it's going to slow it down, you're  
7 going to take commercial licensing terms and put  
8 them on the table in front of a bunch of technical  
9 experts who like to think that they can play  
10 lawyer sometimes, so this makes companies like  
11 mine very nervous, but then, you know, and is that  
12 going to cause more iterations in the standard,  
13 and is this going to really slow down a process  
14 that some people already say is too slow?

15           So what would be the benefit of that?  
16 Because the benefits would have to outweigh these  
17 additional burdens on the system. There was also  
18 the discussion, is the problem, you know, so  
19 rampant that we need to add these burdens to the  
20 system or should we just leave it to private  
21 litigants and the enforcement agencies to address  
22 the one offs when they come up?

1                   And some of the people in the room would  
2           typically raise things like, actually knowing  
3           these licensing terms is not going to be very  
4           valuable to me, because typically I don't want a  
5           license for just essential patent claims, really  
6           what I would probably want is a full customized  
7           license that will enable my product to enter the  
8           marketplace without fear that I'm infringing those  
9           company's patents. At the same time, I may have  
10          cross licensing to do with this company and maybe  
11          other business terms and conditions. So since I'm  
12          going to have to negotiate a customized license  
13          anyway, having somebody tell me the price or the  
14          terms of just the essential claims may not be that  
15          valuable to me.

16                   What really is valuable is knowing who  
17          has the patents that are likely to be essential.  
18          Why? Because then you know who you have to go  
19          talk to, and if you don't like the terms, you can  
20          come back and vote against the standard.

21                   The other value of knowing who has the  
22          patents is because all these companies have

1 different business models and different strategies  
2 around their patents. I think, some people have a  
3 perception that patent holders run the standards  
4 bodies to get their patent to technology and to  
5 standards so they can charge royalties. And that  
6 may be true of some companies, but it's not true  
7 of quite a significant number of the participating  
8 patent holders.

9           So if someone makes a disclosure that  
10 they likely have a central patent and their  
11 business model is to really get a return on their  
12 R&D, then you know you've got to go talk to them,  
13 because otherwise, they're going to come knock on  
14 your door, so you're going to have to figure this  
15 out one way or another. And if they disclose  
16 early on, you have time to do that before the  
17 standard is done. Other companies, specifically a  
18 lot of vertically integrated companies, will  
19 disclose they likely have patents, they'll make a  
20 RAND commitment, and they will never come knock on  
21 your door, and people know that because they use  
22 their patents very often defensively to protect

1        their products, and so they very much will not  
2        bother you unless you knock on their door, and you  
3        should probably think twice about that if they've  
4        made a disclosure.

5                So in other words, I think, the people  
6        who are participating in the process and  
7        implementers sort of say what I need to understand  
8        is this landscape and then I need to know what do  
9        I need to do as a company to move forward if this  
10       patented technology is included in the standard.

11                So it's all these different business  
12        models that really make a big difference. And one  
13        of the concerns at ETSI is, they said, are we  
14        going to wake the sleeping dogs, because these  
15        patent holders that make RAND commitments and  
16        don't actually proactively seek licenses are what  
17        they call the sleeping dogs, and if you force them  
18        to disclose their terms, they're going to have to  
19        put terms together and put that on the table and  
20        then they may start a licensing program. Now  
21        you're going to have bigger problems than you had  
22        before when they were just sleeping. And so they

1       were concerned about that, so they, you know,  
2       there were a lot of concerns that were raised,  
3       there were legal concerns.

4               So if you have patent holders disclose  
5       their licensing terms to this technical committee,  
6       what happens if the technical committee discusses  
7       those terms? Yes, it may be that they won't  
8       violate the antitrust laws, but is there a  
9       potential for buyer cartel pressures, is there a  
10      potential for a group boycott, we won't include  
11      your technology in the standard unless you lower  
12      your price or make it available for free?

13              And then again, what are the impacts on  
14      incentives to innovate, especially to continue to  
15      innovate in areas subject to standardization? And  
16      then what does this do to the participation of  
17      patent holders? Would they say, I'm not going to  
18      go participate, I'd rather be, as Brian says, on  
19      the outside than on the inside. And actually you  
20      want them on the inside where their IP or their  
21      patents come under this RAND framework.

22              So there's all these different kinds of

1 forces that are playing off of each other. And  
2 so, frankly, at the end of a year-long discussion,  
3 they decided we're not going to prohibit the  
4 disclosure of licensing terms by a patent holder,  
5 but we're not going to mandate it because we're  
6 worried about some of these unintended  
7 consequences, to use Anne's words, and that really  
8 what we think is, people have to just watch whose  
9 making disclosures and actually consider that,  
10 think about that, contact the patent holder if you  
11 need to.

12 So again, the standards bodies really  
13 debate and engage in these discussions and try to  
14 figure out what are all of these different  
15 behaviors that go on and not assume that people  
16 all are acting the same way.

17 The other thing is, I agree with Anne,  
18 you don't know, too, if the IP is available, the  
19 patented technology is available at a lower cost,  
20 if that will be passed on to consumers. Look at  
21 the different business models. Some business  
22 models out there are services oriented, they want

1 to give the patented technology that's in  
2 standards away for free to up-sell to their  
3 consulting services and make money that way.

4 If you think about it, cell phones could  
5 be an example of that. There's a lot of  
6 technology in that little cell phone and you  
7 usually don't have to pay very much for that,  
8 right? So there's a business model that makes  
9 money off its services. All these business models  
10 are good, they all compete, that's fine, but just  
11 understand that they're all going to have their  
12 own views on standards and they're all going to  
13 have to come together and they're basically going  
14 to have to work out something that will work for  
15 all of these business models. Thank you.

16 MS. MARSHALL: Go ahead.

17 MR. MELAMED: You know, listening to  
18 Amy, it seems to me one lesson one draws is that  
19 there's no one-size-fits-all solution, because  
20 while Amy, I think, has very intelligently  
21 articulated some reasons for conclusions that she  
22 and ETSI reached, the very premise of the

1 diversity of the business models, the diversity of  
2 the interests and the fact that it took a year to  
3 get there makes it pretty obvious that some of the  
4 contrary arguments might carry today in other  
5 standard setting bodies, not because one is right  
6 and the other is wrong, but because they have  
7 different interests, different needs, different  
8 circumstances.

9           So it would seem to me that, from a  
10 government policy point of view, we ought to allow  
11 the standard setting bodies, you know, a market,  
12 in effect, for standard setting bodies to compete  
13 by private ordering, allow there to be diversity,  
14 allow some trial and error, allow some mistakes to  
15 be made for all the reasons that these at least  
16 antitrusters believe that competition is a good  
17 thing.

18           But that doesn't solve the problem of  
19 the non-participant, the guy who doesn't go to the  
20 standard setting body, isn't one of the  
21 stakeholders in Amy's year long dialogue who might  
22 be -- who might have patents that he wants to use

1 in a strategic way, and so it seems to me that the  
2 public policy question, the standard setting body  
3 is not -- what rule should we say standard setting  
4 bodies have to impose, that's a private market  
5 question, it seems to me.

6 But what, if anything, can the law do to  
7 enable the standard setting bodies in an  
8 appropriate way to address the problem caused by  
9 non-participants who I think, in the absence of  
10 some public law intervention, probably aren't  
11 going to be bound by standard setting rules, say  
12 for perhaps inequitable estoppel kinds of  
13 defenses?

14 For example, I'm not proposing this, but  
15 one could imagine a rule that would say if a  
16 standard setting body requires disclosure or  
17 requires a RAND commitment, an outsider on penalty  
18 of losing the patent or having the license in RAND  
19 terms or whatever, an outsider would be required  
20 to license on RAND terms unless the outsider could  
21 demonstrate one of two things, that it stood up  
22 and notified the standard setting body that it has

1 a patent and has no intention of licensing on RAND  
2 terms, or that it didn't actually have notice of  
3 the standard setting body's activity.

4 Now, if one thought that was a valuable  
5 policy, I could imagine public law creating a  
6 circumstance in which a standard for anybody that  
7 chose a rule like that might find that kind of  
8 enforceable, but it seems to me the focus on  
9 non-participants really is what the public policy  
10 debate ought to be about.

11 MR. CHANDLER: I think your comments,  
12 Doug, certainly align with some of the  
13 observations that you made, Brian, as well, in  
14 terms of focusing on non-participants. I'd like  
15 to just add a comment about FRAND terms and what  
16 they mean. Of the 15 or so cases, patent  
17 litigation cases that we've had involving  
18 standards in the past seven or eight years, the  
19 majority of them, from what we've been able to  
20 tell, involve people who did not participate in  
21 the standards process. What's interesting is the  
22 number of those non-participants in the standards

1 process who, after the standard was adopted,  
2 declared the patent subject to the standard or  
3 essential for the standard, and committed to FRAND  
4 terms.

5           Interesting because you say, why would  
6 someone come in after the fact and make that  
7 commitment, and the answer is because the  
8 plasticity of FRAND is such that they will take  
9 advantage of, I think, what you understated, Doug,  
10 as the lack of cabining of damages in patent cases  
11 and whether the base is the downstream product or  
12 the contribution of the patented -- of the  
13 innovative element of the patented technology.

14           They will take advantage of that and of  
15 the flexibility of FRAND so that FRAND becomes  
16 essentially meaningless. And they are better off  
17 declaring themselves subject to the standard,  
18 being able to avail themselves of a willfulness  
19 claim at that point potentially once they can then  
20 show that you've complied with the standard, and  
21 taking advantage of uncertainty and damages to  
22 leverage the system.

1                   And I do think there is a role for  
2                   antitrust enforcement to look closely at the  
3                   behavior of actors like that to try to bring that  
4                   back and down, because, I think, your comment  
5                   about -- you said you weren't proposing it as a  
6                   legal change, you might have been going a bit  
7                   farther, but, I think -- look at the hidden tax on  
8                   consumers here, I think, that the scandal isn't  
9                   what's illegally done these days, the scandal is  
10                  what's legal. And if the law were changed to  
11                  improve and make more precise the damage remedies,  
12                  than FRAND would have more meaning and would be a  
13                  more useful device.

14                  MR. MELAMED: Well, at least coming --  
15                  the thing that impels us to implement a standard,  
16                  at least for my company, is that interoperability  
17                  is so critical to growth of the marketplace, to  
18                  economic efficiency, to diffusion of technology.  
19                  As we look at standards bodies largely driven by  
20                  engineers, not by lawyers, I think, it's probably  
21                  a good thing, and IEEE has made that point very  
22                  directly in talking about how much they want to

1 engage in licensing discussions.

2 When we look at those bodies, companies  
3 participate because it's good for the marketplace  
4 and good for economic growth to do so, but we come  
5 out of it with absolutely no idea what it's going  
6 to cost to implement the standard, no idea because  
7 even for those who participate in declared  
8 patents, we don't know what the FRAND terms will  
9 actually end up being, let alone being able to  
10 assess the landscape of those who are out there  
11 who, intentionally or not, are going to be taking  
12 advantage of the fact that a standard was adopted.

13 MS. MARSHALL: There are so many really  
14 interesting ideas here. I want to go in a couple  
15 of directions. And I really want to get us to the  
16 trade issue, and I just want to hold that off for  
17 one second here. Doug, your thought of what a  
18 potential solution for non-participants might be.  
19 One concern I've heard about that is that you then  
20 put the onus on the patent holder to monitor  
21 everything that's going on at standard setting  
22 organizations, and there are so many of them; how

1 do you deal with that potential problem?

2 MR. MELAMED: I don't know. I mean if  
3 you really had confidence in this defense of I  
4 didn't know, confidence that you could accurately  
5 determine one knew and didn't know and when one  
6 wasn't being willfully ostrich- like, then maybe  
7 that defense would suffice.

8 Maybe what you do, and I'm just thinking  
9 out loud here, is you put onus on the standard  
10 setting body to send notice to those people it  
11 suspects might have patents. And if you didn't  
12 get that kind of official notice, maybe you're  
13 home free, I don't know. But, I mean, I'm not  
14 saying there is a solution, all I'm saying is, I  
15 think, the constructive role of public policy  
16 people is to focus on the non-participant issue  
17 and let the contract that other private -- deal  
18 with the participant issue.

19 MS. MARSHALL: Amy.

20 MS. MARASCO: Well, among other things,  
21 my company is a huge implementer of many, many  
22 standards, and we're also subject of many patent

1 infringement lawsuits. So the notion of some of  
2 the things that Mark and Doug have raised can be  
3 appealing on that level.

4 And then I have to catch myself, because  
5 we're also a large patent holder, and while we  
6 participate in literally hundreds of standard  
7 setting activities around the world, there are  
8 many more than hundreds of standard setting  
9 activities. There are -- I can't even  
10 guesstimate, it's got to be in the thousands of  
11 standard setting activities.

12 And to have some kind of implied  
13 obligation to monitor all those activities with  
14 standards drafts that are changing, you know,  
15 every week and do patent searches and figure out  
16 what we have in our large portfolio that might  
17 read on that and make disclosures is going to be,  
18 I think, incredibly burdensome. And so I'm really  
19 not sure, as tempting as it is to say we've got to  
20 do something about those non-participants, at the  
21 same time, we don't want to so burden these  
22 patents holders that this causes them to, you

1 know, decrease incentives to innovate.

2 And I just see that as such a huge  
3 challenge. It would have to be some bar by which  
4 this patent holder deliberately knew, deliberately  
5 hid the ball, but still, how could you legally  
6 require them to do anything? It would almost be  
7 like a taking, because they're not participating,  
8 they didn't agree to be bound by the rules of the  
9 standards body, that's a voluntary activity going  
10 on out there.

11 So again, I would just say as much as I  
12 appreciate the problem, I also am not sure that we  
13 want to rush to a solution that, in turn, will  
14 burden patent holders. Thank you.

15 MS. MARSHALL: Thanks, Amy. Brian, I  
16 know you want to comment on that, and then Anne.

17 MR. KAHIN: So there are hundreds of  
18 standards out there that might affect your  
19 business. There are thousands, tens of thousands  
20 of patents out there that might affect your  
21 business. It's simply a cheapest cost avoider  
22 argument. It's much easier for patentees to be on

1 notice of the standards that are out there than  
2 vice versa, and this is because of the mismatch in  
3 standards. You have an expert standard for  
4 standards and you have a journeyman standard for  
5 patents, so we have a lot more patents than we  
6 have standards.

7 MS. MARSHALL: Anne.

8 MS. LAYNE-FARRAR: Well, if you want to  
9 make a cost argument, I'd say it's far easier and  
10 more efficient then for the standard setting  
11 bodies to reach out. They know what standard  
12 they're developing, they have probably a good  
13 sense from their knowledge of the people who are  
14 participating and what industries they're dealing  
15 in and who they would need to approach. Certainly  
16 they can do patent searches if they want.

17 So if we're talking about cost, I would  
18 say, you know, let's not shift it to all the  
19 patent holders and reduce incentives to innovate,  
20 let's put it with the standard setting bodies.  
21 But a more fundamental point, why would we spend  
22 so much effort in penalizing non-participation

1       rather than encouraging participation? Isn't that  
2       a better way to go? Isn't it better to, if you  
3       have some sense of who patent holders might be to  
4       bear on a standard, reaching out to those parties,  
5       finding out why they're not participating and  
6       seeking their participation? Without that, you  
7       could risk certain standard setting organizations  
8       putting together rules, and to state, for example,  
9       defining FRAND in such an unappealing way that  
10      patent holders would not want to participate, and  
11      then using this non-participation rule to then  
12      take their IPR anyway, that strikes me as open for  
13      lots of gaming and horrible outcomes.

14               MR. KAHIN: Can I make a quick response?  
15      I think, this shows that you're not a lawyer, so  
16      --

17               MS. LAYNE-FARRAR: No, I'm not a lawyer.

18               MR. KAHIN: -- so you have to understand  
19      the huge costs and risk of what is essentially a  
20      patent organization trying to assess freedom to  
21      operate within a sphere. And the problem is that  
22      once you start to discover that there are patents

1       that might create problems for you, you become  
2       obligated because of the willful infringement  
3       problem to really investigate.

4               And in some areas, this is really a  
5       bottomless pit, especially in software, because  
6       then you have to think about, you know, are these  
7       patents valid, is there prior art out there that  
8       might be validated -- that might invalidate them,  
9       and what looks like a small problem to begin with  
10      becomes a huge problem. So you could treat this  
11      as an empirical question. I think, it would be  
12      very interesting to get a handle on why standards  
13      bodies don't do that kind of investigation, except  
14      for VITA.

15              MS. MARASCO: I can answer why standards  
16      bodies don't do that, if you don't mind me jumping  
17      in here. Standards bodies typically are  
18      not-for-profits that struggle to break even every  
19      year. They're there to serve their stakeholders  
20      and facilitate the development of technical  
21      standards. A lot of them don't even have an  
22      attorney on staff.

1           To require them to do patent searches or  
2   to try to patent what -- figure out the patent  
3   landscape, they have -- they don't have the  
4   resources to do it, they don't have the  
5   wherewithal or the expertise to do it, and they're  
6   not going to want to undertake any kind of legal  
7   obligations associated with doing that.

8           And so -- I mean that has been brought  
9   up before, and I can see why the standards bodies,  
10  having once been at a standards body myself, would  
11  say that's just not something you really want us  
12  to do, not something we're capable of doing, and  
13  you know, it's just a huge issue. But I do still  
14  have a concern about requiring non-participants to  
15  somehow actively monitor literally thousands of  
16  standard setting activities around the world. I  
17  also would be interested in hearing from Stan, you  
18  know, how does that impact how different countries  
19  may approach this issue, and how would that affect  
20  U.S. interests? Thank you.

21           MS. MARSHALL: A wonderful segue, thank  
22  you.

1                   MR. MCCOY: Well, yeah, I'll be happy to  
2           take a stab at that, Amy. I think, if only Doug's  
3           comment about there being no one-size-fits-all  
4           solution here were an international standard of  
5           public policy, sadly, that's not the case. And it  
6           behooves us all to remember that our approach to  
7           standards is not an international standard.

8                   There are lots of governments out there  
9           who have a small number of standards development  
10          organizations, who have a high degree of  
11          government influence over those standards  
12          development organizations, who have industrial  
13          policy that proceeds from the premise that IP is  
14          mostly owned by Americans or other foreigners and  
15          is potentially just a source of extracting wealth  
16          from their economy and taking it abroad, and you  
17          have climates in other countries of low patent  
18          quality. And all of that adds together to be a  
19          potentially very hazardous environment for u.s.  
20          Companies that are trying to export and do  
21          business into foreign markets. And that is,  
22          indeed, you know, to borrow from Dr. Gallagher,

1       that's the lens through which USTR looks at these  
2       issues.

3               We have a statutory mandate under the  
4       Trade Agreements Act to lead a process of engaging  
5       with foreign trading partners and assessing their  
6       standards-related measures and negotiate with them  
7       about that.

8               And in that context, it behooves us to  
9       remember what Commissioner Ramirez told us at the  
10      start, which is the rest of the world is watching  
11      us, and the rest of the world, because of the  
12      factors that I mentioned, may not be so inclined  
13      to let a thousand flowers bloom on these issues  
14      and explore solutions that may be appropriate for  
15      one particular product area or one particular  
16      standardization context that might not be  
17      appropriate for another area.

18              In fact, you know, we've seen trading  
19      partners propose much more broad, far reaching,  
20      and to some perspectives, draconian rules that  
21      would basically take standards and mandate that IP  
22      impacting on standards be either licensed for free

1 or licensed significantly below market rates, and  
2 also considering unmanageable disclosure  
3 obligations that would really impact on the  
4 ability of U.S. companies to do business in those  
5 foreign markets and to seek some return on their  
6 intellectual property out of those markets.

7           Some of this comes from a cherry picking  
8 of our discussions domestically in the United  
9 States, and our rulings and court opinions that  
10 are informed by our desire to enhance consumer  
11 welfare here. But a very well-reasoned and  
12 thoughtful decision on an outlier case in the  
13 United States can be taken into a less friendly  
14 environment overseas and used to justify a much  
15 more radical policy that is hostile to U.S.  
16 Investment and U.S. exports and trade.

17           And that's something that we do well, as  
18 Commissioner Ramirez reminded us at the start, we  
19 do well to remember that and to always be sure  
20 that the U.S. government is advocating for  
21 balanced approaches that leave open a lot of scope  
22 for the marketplace to choose an approach that

1 works best.

2 MR. TOM: And so to the extent that we  
3 focus on these kinds of marketplace-based  
4 approaches and rely on, as Doug suggested,  
5 competition among standard setting organizations,  
6 you know, will that solve the problem? Can we  
7 simply say if standard setting organizations don't  
8 provide rules that are attractive to both patent  
9 holders and implementers, then people will go find  
10 some other SSO?

11 MR. MCCOY: If I can take the first  
12 stab, I think -- my view is that that only solves  
13 the problem if you assume a starting premise of  
14 letting a thousand flowers bloom. If you're  
15 looking at the international perspective and the  
16 danger of having rules set centrally for entire  
17 broad standardization processes, you're in danger  
18 of not having -- having whole markets closed to  
19 that kind of competition.

20 So, I think, certainly this notion of  
21 the ability of different standards organizations  
22 set different policies on this issue is one that's

1 friendly to U.S. policy perspectives. But if we  
2 don't have that policy premise out there  
3 internationally, then, I think, that undercuts a  
4 bit the answer to your question on the global  
5 stage.

6 MR. MELAMED: I take it, if I understand  
7 what you're saying, that maybe the solution is  
8 something like this, if I understand what you're  
9 saying, if we have a variety of solutions in this  
10 country, there's a risk that a foreign  
11 jurisdiction that have less respect for innovation  
12 and for intellectual property than ours will pick  
13 the lowest common denominator kind of thing. That  
14 suggests to me not that we abandon the idea of  
15 diverse solutions and competition, although that's  
16 an odd word, but rather that perhaps we have some  
17 kind of public policy that establishes a floor.  
18 In terms of, say, minimum protections of  
19 intellectual property or whatever that a standard  
20 setting body must adhere to to guard against the  
21 risk of foreign jurisdiction copying our lowest  
22 common denominator would pick one that would be

1 intolerable to us.

2 But then beyond that, beyond that  
3 minimum floor still allow for private ordering and  
4 diverse solutions reflecting the different views  
5 and competitions between different standard  
6 setting bodies.

7 MS. MARSHALL: Mark, I'd like to go back  
8 to you here, because what I thought I heard you  
9 saying was that the diversity within standard  
10 setting organizations and their rules is  
11 problematic, from your point of view, and that you  
12 would like to see more clarity and similarity to  
13 ease participation.

14 MR. CHANDLER: I had to associate myself  
15 with what Doug just said. I think, there are some  
16 minimum floors, I hesitate to use the word  
17 standards, that should apply to the way bodies are  
18 organized. I think, that they are not -- that the  
19 members or participants are not always thinking in  
20 terms of the way some of their policies will play  
21 out on all of these issues. And, I think, in  
22 Europe, for instance, I think, Commissioner Kroes

1 has got it right in her speech in June of 2008,  
2 saying that if standards bodies couldn't come up  
3 with at least a little bit of consistency, they  
4 were willing to provide some assistance in that.  
5 And, I think, some assistance may be useful in  
6 providing a little bit more clarity.

7 I'm not as worried about the deterrence  
8 issue for the reason I alluded to earlier, which  
9 is, I think, that for the vast majority of  
10 participants, they are there because there's a  
11 compelling marketplace reason to be part of the  
12 standard setting process.

13 The worry about sleeping dogs is not one  
14 I have a lot. I think, there are a lot of dogs  
15 out there, I think, fewer and fewer of them are  
16 sleeping given the liquidity in the patent  
17 marketplace these days. There's one other point  
18 I'd like to make, though, while we're here in this  
19 beautiful hall, and that is about the ability, and  
20 this goes, as well, to the issue of being able to  
21 get information about what patents are issued, and  
22 patents that are pending, as well, although less

1 of an issue, and that is the backlog that exists  
2 in the patent office in the issuance of patents.  
3 And, I think, it behooves -- and we haven't talked  
4 much about the role of the PTO today, but, I  
5 think, it behooves all of us to make sure that  
6 this agency is properly funded so it can do its  
7 job and reduce that backlog, which will be another  
8 step toward providing clarity to the standards  
9 participants and to the marketplace generally.

10 MR. TOM: Just to pick up on the comment  
11 you made on Commissioner Kroes, I guess the  
12 European Commission has now come out with some of  
13 that guidance, at least in draft form, and maybe  
14 Amy could give us a little summary of what the  
15 Commission is proposing here and what she thinks  
16 of it.

17 MS. MARASCO: Well, I think, most people  
18 here might be aware that DG Competition in Europe  
19 has issued some draft guidelines for horizontal  
20 agreements. And there is a section within those  
21 guidelines that directly discusses standard  
22 setting and intellectual property rights. And if

1 I understand this correctly, the guidelines in  
2 Europe are not the same as when say, for example,  
3 the FTC and the DOJ issue a report or  
4 guidance-type documents here in the U.S. And  
5 certainly Will and Frances can correct me if I'm  
6 wrong, but, for example, the DOJ and the FTC  
7 together in 2007 issued a joint report discussing  
8 some of the issues that we've been discussing here  
9 today about the inclusion of patented technology  
10 and standards. And that's very helpful, and the  
11 industry very much appreciates that, but as I  
12 understand these guidelines that are out now for  
13 public comment by DG Competition, they create some  
14 presumptions that certain kinds of patent policy  
15 approaches may be more in a safe harbor type of  
16 place and others may at some point be called upon  
17 to defend their effectiveness and their  
18 pro-competitiveness.

19 And there are a lot of statements about  
20 IPR and standards that were made by the Commission  
21 in these draft guidelines that, to me, seem to  
22 align very much with some of the statements made

1 by the FTC and DOJ in the 2007 report, and, I  
2 think, that's good. But I'm working with a number  
3 of organizations and associations that are looking  
4 to prepare comments, and some of the comments may  
5 be to highlight the diversity of IPR policies.

6 And the fact that -- to just have a  
7 dialogue with DG Competition about, you know,  
8 exactly what did they mean to include within their  
9 safe harbor and what might be outside of that,  
10 because I'm not sure that the industry feels that  
11 it has total clarity on that. And I know that  
12 certainly Cisco and Intel are also looking at  
13 these and participating in these same trade  
14 association discussions on that. Thank you.

15 MS. MARSHALL: You know, we've been  
16 talking about this hold-up issue and then, I  
17 think, really for most of this discussion being  
18 focused on what it is that standard setting  
19 organizations themselves have done or can do to  
20 mitigate the occurrence of the problem. And to  
21 just keep going on that theme just a little bit,  
22 I'm interested in this idea of a floor and sort of

1 exploring what it is that floor might be.

2 And one of the things that, I think, I'm  
3 hearing quite a bit is, that diversity is a good  
4 thing, and that we like competition between  
5 standard setting organizations, trying to figure  
6 out what works best for them in their particular  
7 industries and for their particular standards, but  
8 that maybe a floor is clarity.

9 Let's be clear about what it is that we  
10 need to do within the standard setting  
11 organization, and relating back to the backlog  
12 problem, let's be clear about what patent rights  
13 are out there, and one of the ways to achieve more  
14 clarity is to have a shorter period of time where  
15 we're trying to figure out exactly what patent  
16 rights are there. Is that a place to start as a  
17 floor?

18 MR. MELAMED: Well, let me say, as  
19 somebody who's probably been the most -- repeated  
20 the most frequently, this idea of not having  
21 one-size-fits-all. My real, I think, principal  
22 motive for that, it's not so much diversity,

1       although, I think, that's probably a sufficient  
2       reason, it's that I don't really trust governments  
3       to get these issues right.  These are incredibly  
4       complicated, and what's the right answer today  
5       might not be tomorrow, and that's why it seems to  
6       me something that's not a regulatory ossified kind  
7       of solution.  It's probably going to be the best  
8       way to get to the right answer or answers,  
9       whichever it may be.

10               Now, to answer your question about  
11       floors, I would keep them obviously spare for that  
12       reason.  I think, the problem, if I understand it,  
13       and this is suggested from the trade perspective,  
14       is foreign jurisdictions that have strategies  
15       designed in one form or another to obtain for  
16       themselves the benefit of our inventions.

17               And it seems to me, therefore, the floor  
18       ought to be some notion of minimum protections,  
19       minimum -- a baseline of what the property right  
20       is.  So, for example, a rule -- a standard setting  
21       body rule that said somebody who has notice of a  
22       standard and doesn't speak up and disclose this

1 patent loses the patent, can't even enforce it, it  
2 would seem to me something we wouldn't want to be  
3 enforceable, because the likely -- that notice --  
4 that knowledge say would be a clean line that we  
5 could be comfortable about is very low, and  
6 because the likelihood that foreign jurisdictions  
7 might seize upon that as license to promulgate  
8 their own rules pursuant to which foreign patent  
9 holders would lose the right to assert their  
10 patents might be too great, but it seems to me  
11 that ought to be the focus.

12 What are the minimum protections that we  
13 think that the property right holder, the patent  
14 holder ought to have?

15 MS. MARSHALL: Anybody want to chime in  
16 on what those minimum protections should be?

17 MR. MELAMED: If I could just propose a  
18 question on that front, would it be a minimum  
19 protection internationally that, if there's a  
20 floor, it ought to be RAND terms, that people  
21 ought to be able to get a reasonable and  
22 non-discriminatory, but a market return for their

1 intellectual property as opposed to a floor of  
2 free licensing or significantly below market  
3 licenses. Is that the kind of notion you have in  
4 mind as a floor?

5 MS. MARSHALL: Amy.

6 MS. MARASCO: I'm not sure that I could  
7 be comfortable with a notion that, if somewhere in  
8 the world they want to develop a standard and it  
9 reads on some of my company's core IP that  
10 differentiates and protects our product in the  
11 marketplace, that then suddenly I have to say,  
12 okay, I guess you can have it, and maybe I can  
13 charge some money for that, but I'm losing the  
14 protection for my product, my innovative product.

15 And so I might not be so willing to do  
16 that because I could see then an incentive for  
17 standardization to move in directions of, you  
18 know, gee, that iPhone looks good, right?

19 So, in other words, I think, we have  
20 patent protection, in part, you know, to protect  
21 innovations and products, and when you decide to  
22 voluntarily join a standards body, you are making

1 a decision that there's certain types of  
2 intellectual property you own that you are willing  
3 to share and license to others, sometimes even for  
4 free.

5 But again, these are all business  
6 strategy decisions that are going to depend on the  
7 business model, on the technology, on the  
8 marketplace, and so coming up with any kind of  
9 sort of one-size-fits-all rule may be challenging.  
10 I kind of like Frances' rules, that's what we'll  
11 call them now, they're Frances' rules that, you  
12 know, to strive for clarity in the policies and to  
13 strive for some reasonable amount of disclosure of  
14 patents that are likely to read on the standard is  
15 probably the best dual sort of approach to trying  
16 to help the situation. Thank you.

17 MR. CHANDLER: I think the devil will be  
18 in the details on defining who is subject to the  
19 clarity requirement and what the penalty is if you  
20 don't comply with it. Ideas?

21 MS. MARASCO: By clarity, what I thought  
22 Frances meant, that she can clarify if I have it

1 wrong, was just that whatever the policy is at the  
2 standards body, it should be clear, so that people  
3 should know, okay, do I have an obligation to make  
4 a disclosure and has it been triggered, and do I  
5 have to conduct a patent search or is it something  
6 less than that.

7           And standards bodies struggle with this  
8 because it's really hard to draw hard and fast  
9 lines in the sand. But, I think, that the more we  
10 can strive for clarity, certainly, I think, that  
11 would be helpful, if that is, in fact, what you  
12 had in mind, Frances.

13           MR. MELAMED: It seems to me that -- I  
14 think, what Amy said is really compelling, that  
15 the real issue here, again, is the  
16 non-participant. The participants agree, and it's  
17 like the contracting problem, they're either bound  
18 or they opt out of the contract. It's an issue of  
19 the non-participants.

20           You could say non-participants can  
21 choose not to play, it's their right, they can go  
22 home and take their -- with them and that's the

1 end of it, or you might have some kind of  
2 equitable estoppel or whatever to guard against  
3 certain kinds of narrowly described strategic  
4 behavior. But again, I think, the minimum rule --  
5 if anything, would be protections -- would be  
6 rules that would limit the extent to which, if  
7 any, to which standard setting bodies or others  
8 could diminish a kind of complete property right  
9 of the non-participant.

10 MR. TOM: So far we've been talking  
11 mainly about what SSOs could do on their own. And  
12 to some extent, the patent rules should apply  
13 whether there would be equitable estoppel  
14 defenses, whether we could fiddle with the measure  
15 of patent damages, or provide some clarity around  
16 what RAND or FRAND terms mean. What about the  
17 role of antitrust? Does antitrust have any role  
18 here, either in the negative sense that it has in  
19 the past perhaps inhibited the SSO solutions to  
20 the hold-up problem, or in a positive sense that  
21 it ought to have an enforcement role in certain  
22 situations?

1 MS. LAYNE-FARRAR: I think if we think  
2 back to the old school problems before all of this  
3 IPR stuff got thrown into the mix, it's clear that  
4 antitrust has a role. I mean Allied Tube kinds of  
5 situations are ones where you want antitrust  
6 oversight, you want a prevention of foreclosure of  
7 competitors, so at a bare minimum, we need to keep  
8 that.

9 MS. MARASCO: Well, I agree. And I also  
10 think that the notion that your agencies are  
11 sitting there and watching and engaging on the  
12 issues, you know, helps to keep people honest and  
13 to make -- it really gives them a lot of reason to  
14 want to try very, very hard to adhere to the rules  
15 and policies of standards bodies. And so, I  
16 think, that knowing that you can intervene if the  
17 specific facts and circumstances warrant it. And  
18 again, I think, it's going to be very much based  
19 on the specific facts on a case-by-case basis, but  
20 when those happen, I think, that there's  
21 definitely a role for antitrust enforcement in  
22 those situations. But, I think, that -- I don't

1 see an inability or a reluctance by standards  
2 bodies to do anything more aggressive with their  
3 policies to be as a result of antitrust concerns  
4 that aren't actually legitimate concerns.

5 So, I think, that they really don't want  
6 to be the focal point for commercial discussions  
7 and debates around licensing terms. They're  
8 technical organizations. They want to set a  
9 standard.

10 They have these IPR policies to sort of  
11 say, okay, we're setting up a framework for patent  
12 holders and implementers to go out there and  
13 figure these issues out on their own, and there's  
14 a, you know, reasonable non-discriminatory basis  
15 here that we're setting up, but we are really not  
16 an appropriate venue to have these kinds of  
17 commercial issues really adjudicated under our  
18 roof, and we're afraid that someone is going to  
19 accuse us of not having sufficient expertise and  
20 making a wrong decision, so we would rather that  
21 usually be outside our purview, and that's  
22 traditionally the -- I think, is an accurate way

1 of describing the perspective of many standards  
2 bodies. Thank you.

3 MS. MARSHALL: And then opening it up a  
4 little bit more broadly, and that is, I think, we  
5 see that there are many sources of enforcement to  
6 try and deal with this problem, antitrust, patent,  
7 fraud and contract, and just a general question as  
8 to whether any of those avenues are more or less  
9 helpful than antitrust.

10 MS. LAYNE-FARRAR: I'll be brave. I  
11 think, in terms of RAND and FRAND, you might want  
12 to at least start from the basis of contract,  
13 because there are reasons for having these things  
14 as bilateral negotiations. Certainly if you think  
15 of some kinds of standards that span industry  
16 lines, it can be very difficult to have not only a  
17 one-size-fits-all IPR policy, but also a  
18 one-size-fits-all license.

19 For even a given patent, things like  
20 RFID cover a whole host of different products.  
21 And, of course, the different users of that same  
22 technology are going to have very different value

1 perceptions, and therefore, going to want  
2 different terms. So that seems to me to be at  
3 least out of first cut, a contract issue for  
4 bilateral negotiation.

5 MS. MARSHALL: Brian.

6 MR. KAHIN: -- to sound a kind of sour  
7 note about RAND, because, I think, it brings up a  
8 number of the issues about cross licensing and  
9 relative strengths of portfolios that can work  
10 very nicely to the benefits of companies that have  
11 large portfolios. But like cross licensing in  
12 general, they tend to serve as a barrier to small  
13 companies that don't bring large portfolios to the  
14 table.

15 And furthermore, they basically, because  
16 it's possible to evergreen a large portfolio, it  
17 sort of extends the patent monopoly into the  
18 future beyond the limited terms that patents  
19 supposedly have.

20 I also feel that once you recognize  
21 that, and I'm not sure that it's broadly  
22 recognized, that it then becomes a potential

1 political issue that ties into royalty stacking,  
2 and the terms -- the debates that we face  
3 internationally that the system is stacked against  
4 developing countries who don't have their own  
5 portfolios yet and are, therefore, disadvantaged  
6 by the dominance of portfolios in a particular  
7 field.

8 MS. MARSHALL: I was wondering if we  
9 could maybe tie this back to the general  
10 government standard setting rule, and that is, is  
11 there any room in, you know, looking at OMB  
12 Circular A119, for thinking about ways in which  
13 government can be involved in helping to avoid  
14 hold-up?

15 DR. GALLAGHER: So let me -- for those  
16 of you who don't know what OMB Circular 119 is,  
17 when OMB issues guidance to federal agencies, it  
18 has a number of vehicles, and the Office of  
19 Regulatory Affairs, OIRA, issues, in this case, a  
20 circular to the agencies, and they get these  
21 catchy titles.

22 So A119 basically was the circular that

1 directed federal agencies how they're to look at  
2 standards. And its primary purpose at the time  
3 was really, as I pointed out earlier, it was tied  
4 with this National Technology Transfer and  
5 Advancement Act. So it was really directed to  
6 tell federal agencies that they were to prefer  
7 looking to private sector standards, particularly  
8 those voluntary consensus standards, and, in fact,  
9 it put out the principle that these standards and  
10 organizations were to follow in lieu of government  
11 unique standards.

12 So it was really trying to drive  
13 government agencies away from writing down their  
14 own specifications and standards for a variety of  
15 government uses, whether that's procurement,  
16 whether that's regulation, or whether that's  
17 federal assistance.

18 And I would say it's been very powerful  
19 from that perspective. I mean there's a well  
20 documented shift away from government unique  
21 standards over the period of time that OMB 119 has  
22 been in place. I think, the flaw in 119 is that

1       it was the only vehicle for talking about  
2       standards. And so one of the real benefits of the  
3       National Science and Technology Council process  
4       is, now we have basically a cabinet level or  
5       cabinet -- sub-cabinet level activity as part of  
6       the White House, with full participation of the  
7       Executive Office of the President and all the  
8       federal agencies, and it has the full spectrum of  
9       policy vehicles to work with.

10               So it doesn't have to -- as a circular,  
11       there's a whole variety of ways of doing this. So  
12       that just means the toolbox got a lot bigger. Now  
13       the question is, what do you do with the tools?

14               And I think, you know, to sort of tie  
15       the discussion we've been having with patent  
16       hold-up, I would say the federal agencies have  
17       been very aware that this is a potential issue.  
18       And there's no mistake that my co-chair on the  
19       NSTC Subcommittee is Carl Shapiro from the  
20       Department of Justice, and that one of the very  
21       first activities that's been set up under this  
22       committee is a working group on IPRN standards.

1 And Carl is going to be co-chairing that with Arti  
2 Rai from PTO. So that will start with basically a  
3 scan within the federal agencies to look at this  
4 interplay and how -- and again, you're going to  
5 get the same problem, it's going to look different  
6 from different agencies perspectives, but how is  
7 this issue of IPRN standards impacting their  
8 mission, whether that mission is an international  
9 one, a competitiveness one, or a technology  
10 mission.

11 And based on that scan, I'm expecting  
12 that what will likely come out of that is a  
13 broader discussion with this community. In fact,  
14 I suspect this panel discussion is going to be a  
15 launching point for them, as well, so --

16 MS. MARSHALL: Brian, one last comment.

17 MR. KAHIN: I was just going to say  
18 that, I think, really what's significant about  
19 this development, and it doesn't necessarily have  
20 to do with IP, is that the administration has  
21 moved back a little bit in the other direction and  
22 recognize the positive aspects of government

1 involvement in standards when there is an  
2 extraordinary diversity of stakeholder interest.  
3 So there's a coordination problem in complex areas  
4 like smart grids or health information records,  
5 where you're bringing together, you're convening  
6 industries or stakeholders that have different  
7 business models, different perspectives and so on.

8 MS. MARSHALL: We have just a couple  
9 minutes left, so we would just like to open up the  
10 floor for a question, if anybody has, or two, if  
11 anybody has any. And we don't, all right. Well,  
12 would any of our panelists like to add a final  
13 comment to anything that they've said, left unsaid  
14 at this point?

15 MR. CHANDLER: You know, to the question  
16 we were discussing a second ago about the role of  
17 antitrust and different types of remedies, I do  
18 think that in many ways the issues that we've been  
19 talking about are very appropriate for antitrust  
20 enforcers to look at very, very closely.

21 In fact, even above some other areas  
22 that are typically a focus of antitrust review and

1 regulation, I think, when we look at the patent  
2 right itself, it's a monopoly right created by  
3 government, as I said earlier, for policy purpose.

4 But what it means in practice is that an  
5 individual or a company is given the ability to  
6 utilize the power of the government to shut down a  
7 competitor. And so you can have a perfectly  
8 innocent entrepreneur given the way our patent  
9 system works who thinks of a new product or new  
10 idea completely by herself, wants to bring it to  
11 market, say a patent application is pending, but  
12 not yet published, the government will step in on  
13 behalf of the patent holder, the ultimate patent  
14 holder, and stop her from bringing her product to  
15 market. It's an incredibly powerful economic  
16 right to crush other people, and, I think, it  
17 exists for a very good policy reason, it helps  
18 spur innovation, it lets people have exclusive  
19 rights to something they have created, and that is  
20 a great, powerful incentive.

21 But when it gets leveraged and abused or  
22 it gets played in a way that undermines the very

1 purposes for which that right was created, that  
2 strikes me as the very reason that we have  
3 antitrust enforcement and much less risk of over  
4 deterrence than you find potentially in some other  
5 areas of antitrust enforcement. So I did want to  
6 have -- no one on the panel commented on your  
7 specific question about the role of antitrust.

8 MS. MARSHALL: Do you want to just add  
9 something?

10 MR. MCCOY: As a philosophy major in  
11 college, I can add a point that many of you may  
12 not have known, but the philosopher, Immanuel  
13 Kant, was kind of an early proponent of standards  
14 in the field of ethics, he said act as if, you  
15 know, he was an opponent of situational ethics, he  
16 said to act as if -- act in a way that you could  
17 legislate your behavior as a universal norm.  
18 So, I think, we ought to bear in mind that big picture  
19 when we talk about standards and standards development  
20 policy in the United States, not only the  
21 international picture, but the diversity of industries  
22 that are involved in standard setting.

1 I mean we've rightly focused on the IP sector today,  
2 where the patent issues are most acute, but USTR  
3 produces a report, we produced this report on  
4 technical barriers to trade a few months ago that's  
5 full of standards issues that have impacted the  
6 international trade interests of the United States in  
7 diverse sectors, and many of them involve the  
8 standardization process gone awry in one way or  
9 another, and so I just think it's important to bear  
10 that in mind as we have this specific conversation  
11 here.

12 MS. MARSHALL: And, I think, that's an  
13 excellent note for us to draw this to a close:  
14 what we're having here is a continuing  
15 conversation on these issues of patent standards  
16 and competition. And I want to thank all of our  
17 panelists for coming from long distances to share  
18 their knowledge with us. And I'm sure that this  
19 conversation will continue in the months and years  
20 to come. Thanks very much.

21 (Pause)

22 MS. RAI: Why don't we get started on

1 our last set of remarks and panel for the day?  
2 Thank you all for staying here for what will be, I  
3 think, a very interesting set of remarks from our  
4 next speaker and a very interesting wrap up  
5 discussion by our chief economists of DOJ, FTC and  
6 PTO.

7 Before we get to the chief economist  
8 panel, I'll introduce those chief economists  
9 separately in a moment after our introductory  
10 remarks. I'd like to introduce our speaker who is  
11 going to give our introductory remarks, and that  
12 is Cameron Kerry, who is the general counsel of  
13 the U.S. Department of Commerce.

14 President Obama nominated Mr. Kerry on  
15 April 20, 2009, and his appointment was confirmed  
16 unanimously by the U.S. Senate on May 21, 2009.  
17 As general counsel, Mr. Kerry is the principal  
18 legal advisor to Secretary Locke and chief legal  
19 officer of the Department. He oversees the work  
20 of over 325 lawyers in 14 offices who provide  
21 legal advice to all components of the Department.  
22 Prior to coming on board at the Department of

1 Commerce, Mr. Kerry was a partner in the Boston  
2 office of Mintz Levin, which is a national law  
3 firm. He has over 30 years of practice experience  
4 in the telecommunications area and also in such  
5 areas as environmental law, tax torts, privacy and  
6 insurance regulation.

7 Mr. Kerry received his bachelor's degree  
8 from Harvard College and his JD magna cum laude  
9 from Boston College Law School. Please join me in  
10 welcoming Cameron Kerry.

11 MR. KERRY: Well, Arti, thank you, thank  
12 you for that introduction, and thank you for your  
13 work in putting together this very important  
14 event. I especially want to thank all of our  
15 panelists, both the economic panel and those who  
16 have gone before today. I think, it is a  
17 testament to the importance of innovation that we  
18 have this group here today, and I want to thank  
19 them for, all of you for your insights.

20 I cannot think of a time in our history  
21 when innovation has been as important as it is to  
22 our economic future as it is today. We are not

1 done digging out of the greatest recession of all  
2 of our lifetimes, no matter how old you are in  
3 this room. And a recovery is unmistakably  
4 underway. The Recovery Act has created 2.8  
5 million jobs that would not be there without that  
6 investment in jobs and in a sustainable economy.  
7 But we have a lot more digging to do, and we are  
8 not going to finish the job until the economy  
9 builds up enough steam to put more people to work,  
10 and fundamentally, that is going to take the  
11 engine of innovation.

12 It is that that is going to create the  
13 jobs that can sustain the next generation, the  
14 jobs that can pave the way to an energy revolution  
15 as we've had an industrial revolution, a  
16 communications technology revolution. And that's  
17 what it's going to take to put this country back  
18 on a trajectory of growth.

19 And at the Department of Commerce,  
20 Secretary Locke has made innovation a keystone of  
21 our priorities, and we've reached out across all  
22 bureaus to try to transform ideas to innovation to

1 try to pave the way to commercialization.

2 The Department of Commerce uniquely is  
3 within this government, the Department of  
4 Innovation. And it's through that that we see a  
5 way to have a direct and a tangible impact on the  
6 economy. So one of Secretary Locke's first  
7 actions has been to establish an office of  
8 innovation and entrepreneurship, which reports  
9 directly to the Secretary, which is charged with  
10 the job of maximizing the things that we can do to  
11 promote entrepreneurship, to remove barriers to  
12 innovation, to capital formation, to technology  
13 transfer and work closely with the White House,  
14 with -- you heard this morning in with other  
15 offices to break down those barriers and focus on  
16 those issues that are most important to  
17 entrepreneurs.

18 Those are the companies as -- the work  
19 that Arti Rai and Stu Graham have done -- have  
20 shown generate new jobs in the economy.

21 The Patent and Trademark Office is a  
22 cornerstone, a centerpiece of the Department of

1 Commerce's vision for innovation and for growth.  
2 You know, the words that Abraham Lincoln said  
3 about the patent system are engraved on the walls  
4 of the Department of Commerce. The patent system  
5 added the fuel of interest to the fire of genius  
6 in the discovery and the production of new and  
7 useful things.

8           If you go upstairs to the Patent Museum,  
9 that in the history of those patents is the  
10 history of American ingenuity and of American  
11 economic growth. Earlier today you heard from our  
12 under secretary, David Kappos. Dave has brought  
13 -- I think, all of you who have been part of this,  
14 the intellectual property community know  
15 extraordinary leadership, vision, capacity to  
16 listen to this office, and has broken down walls,  
17 barriers of communication, of understanding, and  
18 has achieved things in terms of changes, process  
19 reforms that already are reflecting a vision of  
20 change and are having a tremendous impact.

21           But to move forward, Secretary Locke and  
22 Under Secretary Kappos have established two key

1 targets, and the first is to reduce that backlog  
2 of over 700,000 patents, working with the  
3 resources at hand with examination tools, by  
4 motivating the examiners by changing the count  
5 system, already this office has begun to have an  
6 impact.

7 But, you know, even so, the patent --  
8 blog reports that of the applications filed in  
9 2007, 3 years ago, 60 percent are still pending.  
10 We simply can't let inventors wait in line that  
11 long to commercialize their ideas. It's a  
12 disservice to them, it's a disservice to our  
13 economy.

14 The second major goal is to improve  
15 patent quality, to achieve in the examination  
16 process through post-grant review the recognition  
17 of true invention, to protect innovators, genuine  
18 innovators in ways that allow them to capitalize  
19 their products. And it's through achieving high  
20 quality in the grants of patents that we can help  
21 to remedy some of the abuses of litigation. And  
22 as we move towards a global economy, we need to

1 add the goal of increasing international  
2 harmonization so that we can help to protect  
3 American products, so that we can make it easier  
4 and more efficient to gain international  
5 protection.

6 And if we get patents right, if we make  
7 sure that the process is producing quality, then  
8 we protect against the anti-competitive effect.  
9 So it's to deal with this backlog, it's to deal  
10 with these mechanisms, it's to deal with issues of  
11 quality that the administration and Secretary  
12 Locke and my office and the PTO have been working  
13 with leaders in Congress to promote and pass once  
14 and for all comprehensive patent reform, so we can  
15 give the PTO the tools, the procedures that it  
16 needs long after Arti Rai and Dave Kappos and  
17 others have moved on.

18 So I'm proud of the role of the  
19 Department of Commerce working across our  
20 department in promoting the innovation agenda. I  
21 welcome the opportunity to be a part of this, as I  
22 now embark on my second year in this job. But

1 those of us who have been working on this agenda  
2 are fortunate to be part of an administration that  
3 has made innovation a centerpiece of its economic  
4 strategy. President Obama, in New York last fall,  
5 laid out a commitment to research, to putting more  
6 money into research, to technology, to, you know,  
7 investing in human and technological capital, to  
8 promoting competitive innovation markets, to  
9 investing in key breakthrough technologies, like  
10 health care, like energy. And these will be the  
11 drivers as our economy as we move into the future.

12 But our efforts in this administration  
13 converge with those of other agencies that are  
14 here today. I'm grateful that Assistant Attorney  
15 General Christine Varney was here today.

16 Secretary Locke and I have worked with the  
17 Antitrust Division on a range of issues. It's a  
18 collaboration that we look forward to continuing.  
19 And, you know, I'm glad that Commissioner Ramirez  
20 and other members of the FTC have been here.

21 We work closely with the FTC across a  
22 variety of venues, and the presence of these

1 agencies here today is testimony that innovation  
2 and competition policy are complimentary. They're  
3 important to a healthy economy and they're  
4 important to providing products in efficient ways  
5 and in making those products available. So we  
6 recognize that innovation policy needs to balance  
7 inventiveness and incentives for research and  
8 development with the need to create a level  
9 playing field, that great ideas need rewards, and  
10 they need open space for the exchange of ideas in  
11 the public.

12 So competition policy needs to police  
13 abuses and undue concentrations of market power  
14 while enabling a flexible application of the law  
15 that encourages a legal regime that will harness  
16 the creative genius of the American people.

17 The FTC's jurisdiction focuses on every  
18 aspect of American life and does important work on  
19 consumer protection and competition policy. Just  
20 a couple of weeks ago at a forum like this one, I  
21 spoke on privacy, and I had the opportunity to  
22 thank the FTC for its ground breaking work in the

1 area of privacy policy, and today get to  
2 acknowledge the work that it's done on competition  
3 policy.

4 The work that the FTC has done in the  
5 past several years is a testament to the value of  
6 independent agencies. And at the Department of  
7 Commerce, over the past year as we work with the  
8 PTO, as we work with the Antitrust Division, as we  
9 work with the FTC, we've been convergent,  
10 identifying synergies in our work, and, I think,  
11 you've seen that here today. The FTC is charged  
12 with protecting consumers, but in this work, it  
13 has been mindful of innovation and of the needs of  
14 commercial actors. At the Department of Commerce,  
15 we are charged with promoting domestic and  
16 international commerce. But we look on that  
17 charge mindful of consumers and of the public  
18 interest.

19 So it is in that spirit of partnership,  
20 of convergence that our agencies have put on this  
21 forum today, and will carry forward this mission  
22 in the innovation agenda to unlock the potential

1 of the American people.

2 President Obama has spoken about  
3 building collaboration and breaking down silos  
4 across government. In his first day of office, he  
5 said we'll work together to ensure public trust  
6 and a system of transparency, public  
7 participation, of collaboration. And since those  
8 first days in office, this administration,  
9 Secretary Locke, and I have worked to break down  
10 silos at the Department of Commerce.

11 I will tell you, you know, Ray Chen,  
12 general counsel of a solicitor of patents will  
13 tell you that there's not a day that goes by that  
14 I'm not talking about breaking down silos. Well,  
15 here today, we are breaking down silos across the  
16 government. Sometimes in my office we give  
17 ourselves a pat on the back for being silo  
18 busters; today we are silo busters. So it's  
19 fitting that these agencies are here today, that  
20 we have a productive working relationship on the  
21 subject of innovation, because in this day and  
22 age, innovation and collaboration go hand in hand.

1           So it's the simple fact that in this  
2           area, we must work together because the stakes are  
3           so large. Thank you.

4           MS. RAI: So let me just introduce  
5           briefly our wrap-up discussion panelists, Carl  
6           Shapiro, Joe Farrell, and Stu Graham, who are  
7           respectively the chief economists, I think, Joe  
8           has a slightly different title at the FTC, but  
9           effectively the chief economists, and respectively  
10          the chief economists of DOJ, Antitrust. Carl  
11          Shapiro is a Deputy Assistant Attorney General for  
12          Economic Analysis at the Antitrust Division of  
13          DOJ. Joe Farrell is the director of the Bureau of  
14          Economics at the FTC. And Stu Graham is our very  
15          own chief economist here at the USPTO.

16          They all come from academia, and, I  
17          think, it's only fitting at a conference in part  
18          on competition policy that I should observe that  
19          they all have been affiliated at various points  
20          with Berkley, and thus suggesting we have a little  
21          bit of a Berkley cartel in the competition and  
22          economic policy divisions of the U.S. government.

1 With no further ado, I suppose we're going to  
2 start with Stu.

3 MR. GRAHAM: (inaudible) hails from  
4 Duke, but thank you. I'd like to thank all the  
5 people who worked diligently to participate in and  
6 organize this event today. As we have heard, we  
7 believe that this event may be the first one of  
8 its type among these three government players.  
9 And I can promise that I will work diligently to  
10 ensure that this is not the last time that we  
11 cooperate.

12 I also want to thank both Drs. Farrell  
13 and Shapiro, who will follow me, for coming here  
14 to the USPTO today, and for sharing with us their  
15 insights about these important topics.

16 It is interesting to muse about the  
17 reasons for the relative lack of formal  
18 communication between our agencies in the past,  
19 especially since, in many nations around the  
20 world, the IP authority and the competition  
21 authority is cabined in the same agency.

22 While unlike Professor Duffy, I am not a

1 radical when it comes to organizing government. I  
2 do think that our event today highlights that  
3 there are substantial competitive effects  
4 associated with the patent system, and taking note  
5 of these effects so that the United States can  
6 promote innovation, economic growth and job  
7 creation is an important and maybe the most  
8 important mission that we collectively have. In  
9 that light, I would like to take a few moments to  
10 discuss the role of the Office of the Chief  
11 Economist here at the USPTO. Unlike our  
12 colleagues at DOJ and FTC, this agency has not had  
13 a specific office for economic research in the  
14 past. In fact, my tenure as the first chief  
15 economist here is now a mere ten weeks old.

16 So what do we here at the USPTO hope to  
17 accomplish? I can tell you that Under Secretary  
18 Kappos is committed to giving the USPTO and the  
19 policymakers here the best available evidence upon  
20 which to rely when making sound policy.

21 Of course, the USPTO can never hope to  
22 build enough of an internal capability to tackle

1 all of the difficult and thorny questions that we  
2 are faced with. And so the Office of the Chief  
3 Economist will always need to rely upon  
4 researchers and thinkers outside the walls of this  
5 agency.

6 At the same time, we are committed to  
7 building a research and analysis capability  
8 in-house and to tackling some of the research  
9 questions to which we do not have adequate  
10 answers, with an eye toward improving the  
11 performance of this agency and the innovation  
12 system more generally. Of course, the U.S. Patent  
13 and Trademark Office's primary mission is to  
14 examine and to decide upon the granting of patents  
15 and trademarks. As a result, much of our focus  
16 will be ex ante to the patent grant, to the  
17 activities associated with search and examination.

18 While these issues are critically  
19 important to a well functioning system, our  
20 discussions today remind us that there are  
21 substantial economic effects associated with the  
22 period ex post to grant. And, indeed, the topic

1 we've discussed today tracks some of the important  
2 issues that dominate our research agenda here at  
3 the USPTO.

4 First, we are critically interested in  
5 understanding the economic costs of backlog and  
6 thinking in innovative ways about how we can  
7 within our legal constraints create a system that  
8 would allow those entities that rely critically on  
9 a timely grant to access the services they need.

10 At the same time, we understand that the  
11 costs of backlog are falling not only upon  
12 inventors and applicants, but also on the  
13 community of innovators who are forced to operate  
14 in an environment of increasing uncertainty, and  
15 ultimately upon the consumer. We are currently  
16 engaged in these issues and we are committed here  
17 at the USPTO to finding solutions.

18 Secondly, and consistent with our last  
19 panel, we are also deeply interested in  
20 understanding the role of patenting and IP rights  
21 more generally in the standard setting process.  
22 Economic research has taught us that a

1 market-based cooperative standard setting process  
2 can lead to superior results. It is not always  
3 the case, however, and especially in the standard  
4 setting process, that faster is necessarily  
5 better.

6 At the same time, in many of the  
7 technologies in which standards are most  
8 beneficial, like communication technologies, the  
9 market is well served by some degree of vertical  
10 specialization, with some entities specializing in  
11 upstream technology supply and others basing their  
12 business model on profiting in the downstream  
13 product market. IP can thus have different roles  
14 to play depending on a company's business model  
15 and the structure of the industry and the  
16 competitive marketplace.

17 Finally, and although researchers have  
18 been heroically assailing this issue for decades,  
19 we are still without the best evidence with regard  
20 to the role played by the patent system and IP  
21 more generally in economic growth and job  
22 creation. A substantial body of fine work has

1       been done on these topics to date, but we are  
2       committed here at the USPTO to working inside the  
3       agency, as well as researchers in all places to  
4       shine more probing light on this issue.

5               We understand consistent with today's  
6       topics that we've discussed that patents have a  
7       role to play for good and -- in terms of  
8       competition and consumer welfare. But we are  
9       committed to uncovering the best evidence to not  
10      only increase learning and knowledge in this  
11      space, but also as an input into sound  
12      policy-making.

13              So the USPTO is sending a strong signal,  
14      two signals, both with this conference today and  
15      through the creation of the Office of Chief  
16      Economist that we intend to become more of an  
17      involved partner in this conversation and we look  
18      forward to the benefits to come.

19              MR. SHAPIRO: Joe is going to go next,  
20      but I wanted to ask you a question, Stu, about  
21      backlog --

22              MR. GRAHAM: Sure.

1                   MR. SHAPIRO:  -- because I was  
2           fascinated by the morning panel and I thought  
3           there were some basic economics in there that I'd  
4           be curious to get your view or the PTO's view.  So  
5           it seems like economists would naturally think,  
6           oh, we've got a backlog, we should have some  
7           people who are in a rush, who would like to have  
8           their patent -- it's more valuable for them to  
9           have their patent issued sooner to pay extra to do  
10          that.  And I gather, at least from David Kappos,  
11          there's consideration, I've heard about that at  
12          least.  So then I thought about, when I was  
13          waiting for an airplane, and the airline had the  
14          scheme where if you paid extra, you could get  
15          boarded earlier.  Some people started to pay  
16          extra, and they realized pretty soon that, no,  
17          people weren't going to board any more quickly,  
18          it's just some people would pay more.  Then  
19          eventually everybody paid, and everybody paid  
20          extra, and they all got on in the same order they  
21          would have otherwise, okay?

22                   So I was wondering how you would

1       implement such a system. Do we have a good  
2       economic answer to that, or is it really not a  
3       good idea and you really should increase the  
4       supply of examiners rather than charge people?  
5       But there seemed some good idea about charging  
6       people who wanted the patent sooner, but how do  
7       you avoid that being a scheme?

8               MR. GRAHAM: Well, you know, I do think  
9       that there are, you know, that there are economic  
10      benefits associated with, you know, price  
11      discrimination in some sense. This is a topic  
12      that we are currently engaged in in substantial  
13      study. I do not yet have an adequate answer to  
14      this issue, but it is certainly something, because  
15      we are considering mechanisms in this space that  
16      would allow for some differentiation among the  
17      applicants that we know have different -- they  
18      have different wants and desires in terms of  
19      application.

20             Some, like the applicants we heard this  
21      morning, Josh McHour and Richard O'Geila, are  
22      motivated to want quicker results. Others who

1        may, indeed, face substantial uncertainty  
2        associated with technology and market spaces have  
3        very good reasons to want more of a delay.

4                The implications of that for creating a  
5        system that has some differential -- opportunity  
6        to select is something that we still have to look  
7        at rather critically.

8                MR. SHAPIRO:    So, I think, this is a  
9        good thing, maybe we could continue to engage on  
10       that, because at the same time, I'm worried about  
11       self-selection.    The people who are happy to delay  
12       will say, oh, I don't pay money, I'm delayed more.  
13       So it seems like a really good idea, but tricky.

14               MR. FARRELL:    Well, thank you for  
15       inviting me and I'm delighted to be here.  
16       Anything I say, everything I say is my own views  
17       and not the views of the Commission or any  
18       individual Commissioner, and I imagine the same is  
19       true of my colleagues. I have three points to try  
20       to bring out in just a few minutes, and then Carl  
21       is going to make some comments, and then I hope  
22       we'll have some time for some back and forth

1 and/or perhaps questions from the audience.

2 First of all, listening to the first  
3 panel this morning, I was struck by the message  
4 from at least some of the panelists that  
5 uncertainty, delay, backlog, and patent quality  
6 issues are a drag on the rewards to actual  
7 innovators.

8 And yet if you listened to the message  
9 that was, I think, the center of gravity of the  
10 most recent panel on standard setting and IP, I  
11 think, the message was that the backlog, the  
12 uncertainty and the patent quality issues lead to  
13 those who have to license patents being put in too  
14 difficult a position.

15 And there's a certain tension between  
16 those ideas, because if you think of it in terms  
17 of weak versus strong enforcement, the innovators  
18 are claiming that they get enforcement that is too  
19 weak and the licensees are complaining that  
20 there's enforcement that is in some sense too  
21 strong. How do you reconcile those two messages?  
22 I think, that's a subtle question, but, I think,

1 part of the answer is that the innovators are  
2 coming at this from the knowledge or, let's say,  
3 position that they are genuine innovators who have  
4 genuinely invented something important. And the  
5 potential licensees, perhaps particularly in the  
6 standards context, but as Doug Melamed pointed  
7 out, not only there, anywhere that hold-up is an  
8 issue, recognize that they face not only the  
9 patents that are eventually awarded to the genuine  
10 innovators, but also those that represent the  
11 other part of the patent quality mix, the ones  
12 perhaps awarded in haste and error.

13 So, I think, in order to understand the  
14 tension, while you can't, of course, fully  
15 separate the idea of reward to innovators from the  
16 idea of reward to patent holders, it's important  
17 to recognize that those are not quite the same  
18 thing as one another.

19 And that leads me into my second theme,  
20 which is, one of the issues that has -- one of the  
21 intellectual property issues that has exercised  
22 the FTC over many years is the so-called pay for

1        delay agreements, where typically in the  
2        Hatch-Waxman pharmaceutical context, a brand  
3        pharmaceutical company will pay a generic company  
4        that has challenged, or in some cases looks likely  
5        to challenge some of its patents and will  
6        negotiate alongside this payment an entry date, or  
7        less commonly, perhaps, a royalty. And the  
8        Commission has been concerned, in my view, rightly  
9        so, with the very real incentives that that sets  
10       up for delays, and again, potentially for  
11       royalties that disserve consumers by being a later  
12       entry date or a higher royalty than would have  
13       been negotiated in a way that reflected the patent  
14       merits as perceived by the parties at the time of  
15       negotiation.

16                While, I think, the economic incentives  
17       are pretty clear that this tends to keep prices to  
18       consumers artificially high, and we in the Bureau  
19       of Economics have done some calculations to try to  
20       estimate the size of that effect, what I want to  
21       do this afternoon is not to go over that or to  
22       belabor the basic logic, but to say why I believe

1       that the Commission's policy of challenging those  
2       agreements is not anti-innovation.  It's not a  
3       matter of saying we would rather have the low  
4       prices than the innovation that the patents are  
5       meant to reward.

6                   And very briefly, because we don't have  
7       a lot of time, I think, there are two strands to,  
8       in my mind, to this belief.  And I will say that  
9       we in the Bureau of Economics and other staff at  
10      the Commission are continuing to explore this  
11      question.  One point is from the economic logic of  
12      it.  It's pretty clear that the joint incentive  
13      for the brand and generic to agree on a delayed  
14      entry date is strongest when the patent is  
15      weakest.  And therefore, if you think about it in  
16      terms of innovation policy allowing these deals,  
17      and Carl and I have written on this question,  
18      allowing these deals is very poorly targeted  
19      rewards to patent holders.

20                   And keeping conceptually separate the  
21      reward to patent holders from reward to  
22      innovators, it's a reward to patent holders that

1 is very low-powered as a reward to innovators  
2 because it disproportionately goes to the patent  
3 holders who hold weak patents, that is, patents  
4 that may be invalid or not infringed or fairly  
5 readily invented around.

6           There's also empirical evidence that  
7 somewhat suggests the same thing. In  
8 brand/generic litigation as a whole, those cases  
9 that are litigated to a final conclusion, there  
10 are a number of studies that have addressed this,  
11 but all of them have found at least substantial,  
12 and in some cases overwhelming -- for the  
13 generics. That suggests that these patents that  
14 get litigated, and therefore, the ones that get  
15 litigated and then settled tend, if anything, to  
16 be relatively weak ones. Mark Lemley has some  
17 recent work that, at least as reported to me, says  
18 if you look at those patents more broadly, not  
19 just in this area, where the patent is litigated  
20 to final judgment rather than settled, the patent  
21 holder wins only a minority of the time.

22           So those facts, in my mind, tend to

1       buttress, and we're continuing to research this,  
2       tend to buttress the economic logic that says the  
3       patents involved in pay for delay settlements are  
4       apt to be relatively weak, and therefore, that's  
5       not a good way to reward invention.

6               So turning, for shortage of time, to my  
7       third topic, and this will lead into some of the  
8       remarks that Carl I know is planning to make, what  
9       about standards and patents and hold-up.

10              So I wanted to pick up on a remark by  
11       Anne Layne-Farrar earlier that one of the things  
12       to watch out for if you have strong disclosure  
13       policies is over disclosure. And from the point  
14       of view of the Federal Trade Commission staff and  
15       our work on disclosures, which is one of the  
16       things we think about in the consumer protection  
17       area, that message resonates with us.

18              Markets work well basically when you  
19       have buyers who are well informed and freely  
20       choosing among competing offers. And well  
21       informed can go wrong in a number of ways: One is  
22       if there are lies, another is if there are

1 misleading statements, even if they're not lies, a  
2 third is if there's not enough information, and a  
3 fourth is if there's, pretty much the same thing,  
4 too much information.

5 So that's definitely something to watch  
6 out for and it fits very well into the mission of  
7 the Federal Trade Commission that combines  
8 consumer protection that is largely about  
9 information flow to consumers, not entirely, but  
10 largely, with the more standard competition  
11 messages.

12 Aside from the information problems,  
13 which go beyond that, but I'll skip on that for  
14 the moment, I would identify at least three  
15 incentives problems that come together in the  
16 standard setting area. One is the observation  
17 that Doug Melamed made earlier, that you have  
18 incentives problems or just problems from the fact  
19 that not all patent holders participate in  
20 standards organizations.

21 A second is a point that I've made in a  
22 number of places, as have others, that the --

1 especially in the presence of non-discriminatory  
2 royalties, the true economic incentive of  
3 potential hold-up or in any case other -- or other  
4 royalties is not on the typical participants who  
5 may be the direct buyers of the technology, but on  
6 downstream consumers. And so it's not exactly  
7 correct to say, even bringing in non-participants,  
8 that the organizations will have good incentives  
9 to explore for the policies that are right for  
10 their particular environment. And so that has to  
11 be a qualification to the, in some ways, sensible  
12 and wise recommendation that we heard earlier this  
13 afternoon, to allow different approaches to be  
14 tried by different organizations.

15 If the organizations have the wrong  
16 incentives, which there is good reason to think  
17 that they do, then you have to worry about that,  
18 as well as, of course, on the other hand, worrying  
19 about clumsiness, ignorance or incompetence on the  
20 part of anyone who would set a one-size-fits-all  
21 policy.

22 And the third incentive problem that I

1 want to briefly mention is one that relates to the  
2 concern -- any power. So it's often treated as  
3 almost a throw-away line that, of course, you  
4 would not want to have members of a standards  
5 organization collectively negotiating on  
6 royalties. Even if there's full disclosure and  
7 commitments and so on, people think that the  
8 negotiations should take place outside the SSO  
9 context. And there are good reasons for that,  
10 there are real concerns about a collective  
11 negotiation, but there's also potentially a real  
12 concern about the bilateral negotiations that  
13 people often recommend instead, and that is, when  
14 standards are important, the adoption decision in  
15 the end is largely a collective one. The industry  
16 is going to go this way or the industry is going  
17 to go that way, and if any one adopter sees that  
18 the others are going this way rather than that  
19 way, then that adopter will be in a position to  
20 potentially be held up.

21 And economists have studied the  
22 divide-and-conquer strategies that can potentially

1 be used to exploit mismatch between the actual  
2 decision that's in the end going to get made and a  
3 bilateral decentralized negotiation process. So I  
4 probably used more than my share of our rather  
5 scarce time, so I'll turn it over to Carl.

6 MR. SHAPIRO: Thanks, Joe. Well, it's  
7 an honor to be the last speaker, I get to pull  
8 things together and synthesize, but it's also -- I  
9 realize it's late in the day, so I will be mindful  
10 of that. I do want to thank the PTO for hosting  
11 us here today. I've been excited about this  
12 program as we've been working on it in recent  
13 months, in part because my own interest and  
14 research for 25 years has involved issues of  
15 patent licensing, standards, the operation of the  
16 patent system and how it intersects with  
17 antitrust, so this is very much my sweet spot and  
18 it's really a delight to be here and I've enjoyed  
19 the day.

20 I want to touch on three things in a few  
21 minutes, first, give a DOJ perspective on sort of  
22 how we integrate patents or factor patents into

1       our antitrust analysis at a high level, echoing  
2       some of the things you heard this morning from  
3       Christine Varney.

4               Second, talk a little bit about  
5       standards, and then third, speak a little more  
6       broadly about some ways to deal with the hold-up  
7       problem in response to Doug Melamed telling us --  
8       reminding me that it's a broad -- it's a big  
9       problem and he didn't -- haven't fully solved it,  
10      which means it's a hard problem, because Doug is  
11      very good at solving things.

12             Okay. So from the antitrust side of  
13      things, and I know many of you are more from the  
14      patent community, more from the antitrust  
15      community, we have to take, quite rightly so, the  
16      intellectual property rights as they are when we  
17      look at a firm's practices, whether it's a merger  
18      or licensing practices. And there's what's a  
19      considerable, rightly so, considerable respect for  
20      those intellectual property rights as we do our  
21      job. So the exclusivity that's granted to the  
22      patent holder, even if that means monopoly power,

1       that is presumed to be legitimate inasmuch as it's  
2       created by the grant. So our issue then is  
3       always, well, are there practices surrounding the  
4       patent that extend in some way beyond what is  
5       associated with the patent grant, either in time  
6       or into different markets or by excluding a  
7       competitor who would otherwise get in perhaps with  
8       a non-infringing technology, and also then these  
9       tricky cases, and the pay for delay fits into it,  
10      when the patent may or may not be valid.

11               So the extent of control that the patent  
12      holder is granted is less than complete even  
13      within the scope of the patent, because it might  
14      be proven to be invalid, okay. And Joe and I and  
15      others have written, you know, those so-called  
16      reverse payments are a signal, if they're large,  
17      that the patent may be weak so that it's part of  
18      the analysis.

19               So, I think, there's been -- for a long  
20      time there's been a general recognition in the  
21      antitrust circle that we generally do not want to  
22      get into mandatory licensing, that would be

1 inconsistent with the patent regime. And we've  
2 heard, you know, we heard both David Kappos and  
3 Christine Varney talk this morning about how our  
4 two regimes, if you will, antitrust and patents,  
5 are working in harmony, and, in general, imposing  
6 mandatory licensing would cut against that. But  
7 if you talk about conditional licenses and other  
8 provisions that are attached to a license, then  
9 those can be abused, okay. So that's where we  
10 come at the problem, not presuming market or  
11 monopoly power associated with the patent,  
12 generally accepting any such power that is  
13 adhering to the patent as legitimately earned so  
14 long as the patent is valid, okay.

15 So that's our perspective. Now, that  
16 could be frustrating at times, and this, I think,  
17 led, in part, to the very important FTC report in  
18 2003. If there are a lot of patents out there  
19 that seem iffy, weak, we wonder whether they  
20 should have been granted.

21 Maybe there wasn't that much, you know,  
22 there wasn't that much time spent on them. We

1 have to treat them as the property rights they are  
2 and respect that, but if there are many of them,  
3 they're overlapping, they seem questionable, then  
4 we see market power being created at least in  
5 pockets when it is questionable whether there was  
6 innovation behind that that warranted that market  
7 power, okay. But, I think, the response to the  
8 antitrust community has been, and rightly so, it's  
9 not our job to say, oh, we don't like that patent  
10 because we're doubtful of it, that's the job of  
11 the patent system and patent litigation, but we --  
12 since we are looking for market power and abuse of  
13 it, I think, it's natural that the FTC could help  
14 raise the alarm on that point along with the  
15 National Academy of Sciences. So that's where  
16 we're coming from generally. And, you know, it's  
17 very -- well, I'm personally pleased, I think,  
18 institutionally we're pleased that the PTO is  
19 doing what it can not only to reduce the backlog,  
20 but to improve patent quality where they can.

21 So the second topic is standards. It's  
22 gotten quite a lot of attention in antitrust

1 circles. For quite a while, I remember back in  
2 the mid-'90s, first doing -- working on some  
3 antitrust cases involving FRAND or RAND licenses  
4 and whether a company was not making good on their  
5 FRAND commitment. Actually we've come a long way.  
6 There have been various antitrust reports on these  
7 topics.

8 I remember in that first case, the  
9 expert on the other side insisted that reasonable  
10 was whatever the patent holder could get at the  
11 time. They were prepared to license, so that was  
12 reasonable. And I was arguing, no, reasonable  
13 should be based on what the patent holder could  
14 have gotten before the standard was implemented,  
15 when there was still choice, and the case settled,  
16 so we didn't get a judicial resolution of that,  
17 although I was pretty sure I knew who was right.  
18 And, I think, over the intervening ten -- 15  
19 years, certainly the agencies have come out in  
20 general articulating that, and Christine Varney  
21 did this morning, there's some of that in the 2007  
22 FTC DOJ report.

1           So we've moved towards -- I think, the  
2       economists, and to some degree the agencies have  
3       moved towards a view on what a natural and sort of  
4       economically good interpretation of FRAND would  
5       be, not in its entirety, but how we would  
6       conceptually want to think about reasonable  
7       royalties, well recognizing the different standard  
8       organizations are going to define that the way  
9       they choose to, and not trying to mandate that.  
10      But that seems to be something that there's some  
11      consensus among these organizations that have  
12      grown up in that. Of course, there are some that  
13      are royalty-free and there are some that are much  
14      more vague about what RAND is.

15           So, I think, we've come a long way. I  
16      would point you to most recently, you know, some  
17      of the business review letters the DOJ has issued,  
18      the IEEE letter in 2007, the letter to VITA in  
19      2006, saying we would not be inclined to challenge  
20      arrangements in VITA in particular, I think, is  
21      interesting in conjunction with the discussion  
22      earlier where the SSO required its participants to

1        indicate up front what their most restrictive  
2        terms would be for licensing.

3                Now, we're not saying you have to do  
4        that or it's a great thing to do, but we wouldn't  
5        challenge, wouldn't be inclined to challenge that  
6        practice if an SSO chose to adopt it, okay.

7                So, on the other hand, again, as  
8        Christine said this morning, we don't just take  
9        the SSO rules necessarily as the last word because  
10       we really are concerned about competition that  
11       will ultimately serve final consumers and the  
12       participants may not have the same interests in  
13       mind, okay.

14               I'm really quite delighted to be on this  
15       sub- committee on standards you heard about  
16       through the NSTC. Arti Rai and I, as you've  
17       heard, will be co-chairing the working group on  
18       intellectual property and standards. And, I  
19       think, we're really trying to take stock of how  
20       different federal agencies deal with standards and  
21       IP issues, we're just getting off the ground, we  
22       welcome all of your input to either of us, to Pat

1       Gallagher, as well. We are, you know, very much,  
2       as you heard the OMB Circular 199, a lot of  
3       diversity following private groups, but the  
4       government can be smart about it, we want the  
5       government to be smart about it in areas where the  
6       government is trying to move technology forward  
7       for policy reasons and simply as the larger buyer  
8       who has interest, okay.

9               The third area now is -- I'm going to  
10       stray from my DOJ role and put back on my academic  
11       hat for a moment, okay, because -- and this was  
12       really motivated by both the backlog panel and the  
13       standards panel today, which is, there are some  
14       pretty deep problems that arise when implementers  
15       find themselves in a position where they've  
16       developed a product, invested a lot of money, and  
17       then they find themselves facing a patent  
18       infringement suit, okay. It's not uncommon, okay.

19               Standards is one context, we worry about  
20       that. There is, I think, a natural way, a good  
21       way to think about that, and again, this is not a  
22       policy proposal as such, but just to stretch your

1 mind a little bit, I think, prior user rights,  
2 expanding prior user rights can really help in  
3 this respect, and, I think, we all would benefit  
4 by thinking in a smart way about how that could be  
5 done.

6 We already have some prior user rights  
7 in the early inventor defense, but they're pretty  
8 restricted to business method patents and there's  
9 a one-year lag involved there, too, before the  
10 defense can be invoked. There's some pretty  
11 strong economics, and this I'm just -- I have  
12 written about this, so I'm really just  
13 articulating some of those thoughts I've written  
14 about over the past five years or so, and this is  
15 my suggestion and a solution to Doug's question  
16 about hold-up being a big problem, that if a -- to  
17 put it -- to crystallize it, if an implementer has  
18 developed a product for technology and they did so  
19 prior to either the issuance of the patent in  
20 question or the publication of that, basically on  
21 their own early enough, then should that be a  
22 defense from infringement, at least a personal

1 defense, okay.

2 Now, this is already in the law in a  
3 more limited area. I think, there are a lot --  
4 it's a tricky area, but, I think, short of  
5 something that moves in that direction, and  
6 there's different legal -- we can talk about  
7 latches here, we can talk of equitable estoppel,  
8 and I don't fully understand the different legal  
9 routes to get there, and it probably matters a lot  
10 exactly how you do it, but this would potentially  
11 also deal with the problem of non-participants in  
12 standard setting organizations. So if the SSO  
13 develops a standard before a patent is issued, and  
14 before that patent and technology was made public  
15 by the eventual patent holder, perhaps that could  
16 be a defense. So that is one way to try to try to  
17 deal with these problems. There are tricky issues  
18 in terms of patent versus trade secrets that come  
19 up here, but I've written about how this could be  
20 quite attractive in terms of some of the  
21 economics. So, Arti, do you want to wrap us up  
22 here in some way?

1 MS. RAI: I will. So I will share some  
2 concluding thoughts/commentary. First of all,  
3 thank you so much to all three of you for your  
4 penetrating economic analysis. Being an economist  
5 want to be, I'm just a lawyer unfortunately, it's  
6 always very enlightening for me to hear economists  
7 speak.

8 One thought I had about a couple of the  
9 comments that related the backlog panel to the  
10 standards panel, and particularly Joe Farrell's  
11 comment that there seemed to be tension between  
12 the backlog panel where there are folks saying  
13 that innovators were negatively impacted by  
14 backlog relative to the standards panel, where  
15 there were users or commercializers, shall we say,  
16 who thought that patent holders could  
17 strategically use backlog to their advantage, I  
18 think, one of the ways of mediating that tension  
19 is to recognize a theme that we at the PTO are  
20 trying to embrace and get more data on, which is  
21 that we're talking about different technologies,  
22 at least in significant part. So in the morning

1 we heard from medical device inventors and the  
2 green tech inventors, and for the most part these  
3 are not the inventors who would ultimately be  
4 asserting patents.

5 At least currently we don't see them as  
6 the inventors that are asserting patents as much  
7 in the hold-up context, so they're not  
8 appropriating a lot of rents from delay in the  
9 grant of their rights. They tend to appropriate  
10 the rents through a more speedy grant.

11 Now, that raises the question of what  
12 happens if we end up creating opportunities for  
13 self-selection, where people -- some people can  
14 get speedy rights and other people can elect,  
15 frankly, for more delayed rights? Will those who  
16 elect for more delayed rights be able to, even  
17 more than they currently can, create problems for  
18 users of the technology, future users, and that's  
19 a real concern.

20 So I appreciate your bringing out that  
21 tension, but also kind of it highlights a problem  
22 for self- selection, a totally -- a mechanism

1 where there's complete self-selection into the  
2 speed that one prefers for ones examination. So  
3 with that comment, I'd like to just invite anyone  
4 who has any questions to ask questions, otherwise,  
5 we can call it an evening. I know it's been a  
6 very long day and we've been talking about some  
7 very technical, but nonetheless very important  
8 issues, but I'm sure that, as a consequence, many  
9 of you are quite tired. So if you have any  
10 questions, please approach the microphones; if  
11 not, I want to thank you all for attending, and in  
12 particular, thank all of our wonderful panelists  
13 from many different parts of the country and  
14 certainly from many different agencies.

15 We at the PTO, as Stu Graham pointed  
16 out, really hope to do this a lot more often and  
17 engage all of our sister agencies in thinking  
18 about innovation, because there are many agencies  
19 that have an important role to play, and we'd like  
20 to continue this conversation both through the  
21 standards process that we're engaged in and  
22 through work we're doing on backlog that you'll

1           hear a lot more about in the forthcoming weeks.

2                       Thank you.

3                               (Whereupon, at 5:19 p.m., the  
4                               PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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