



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Secretary of Commerce**  
Washington, D.C. 20230

OCT 5 2009

The Honorable Patrick J. Leahy  
Chairman  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

The Honorable Jefferson B. Sessions, III  
Ranking Member  
Committee on the Judiciary  
United States Senate  
Washington, D.C. 20510

Dear Mr. Chairman, Ranking Member Sessions, and Members of the Committee:

I am pleased to provide the views of the Department of Commerce on S. 515, the "Patent Reform Act of 2009," as reported.

Congress is clearly committed to developing patent reform legislation that fosters innovation by fairly balancing the interests of innovators across all industries and technologies. We strongly support these efforts, and we are committed to working with Congress to help bring them to fruition as soon as possible. Enactment of patent reform legislation is another important step in placing the U.S. Patent and Trademark Office (USPTO) on a sound financial footing and ensuring that the intellectual property system as a whole is in a strong position to further our economic recovery.

The American spirit of innovation is essential to creating jobs and hastening that recovery. Innovation and creativity are the wellspring of economic growth and progress. As the framers of the Constitution recognized, a robust system of intellectual property protection ensures that innovation will flourish. To this end, landmark patent reform is urgently needed. We believe S. 515 incorporates the essential elements of patent reform; and, therefore, the Department of Commerce supports the bill with additional recommendations below.

In the 21st Century, innovations in science and technology are crucial drivers of our economy. Now, more than ever, strong, transparent, and predictable incentives to invest in research and development are vital. At the same time, legislative and administrative actions involving the establishment and enforcement of intellectual property rights must encourage healthy competition and facilitate continuing innovation. A 21st Century U.S. patent system must balance incentives for innovation and competitive markets through strong intellectual property protections and by only rewarding truly innovative ideas with those protections.

We must recognize the international dimensions of innovation by encouraging reforms that promote innovation in the United States and success in the global marketplace. A more harmonized international patent system will benefit U.S. applicants by simplifying the patent process, reducing legal costs, and enabling American innovators to obtain patents more quickly, both domestically and abroad. Developing an effective international system will help ensure that American intellectual property rights are protected around the world.

The cornerstone of our comments is therefore to provide balance, flexibility, and efficiency in the U.S. patent system. The Administration seeks reforms that fairly balance the interests of innovation and competition across all industries and technologies without favoring one industry or any particular area of technology over another.

To achieve such a balance, the USPTO must have the resources, authority, and flexibility to administer the patent system effectively and issue high-quality patents on innovative intellectual property, while rejecting claims that do not merit patent protection.

The Administration's goals include:

- Improving the management of the USPTO and patent examination process;
- Improving the quality of patentability decisions and harmonizing patent laws; and
- Better managing patent litigation.

## **U.S. PATENT SYSTEM MANAGEMENT**

Improving the management of our patent system must begin by addressing the urgent need to put the USPTO on a sustainable financial footing. Accordingly, we endorse giving the USPTO the authority to adjust patent and trademark fees to more accurately reflect the actual costs of providing services to applicants, and also recommend authorizing a limited fee adjustment on current patent fees, as well as granting the USPTO substantive rulemaking authority. In addition, we believe the language in S. 515 is a good starting point for developing post-grant review and *inter partes* reexamination procedures, and we look forward to working with Congress to fine-tune this procedure.

### ***USPTO Fee Setting Authority***

The ability to set fees to recover costs would permit the USPTO to better address operational funding needs, and provide high quality, timely examination of patent applications. This authority is critical in light of the USPTO's recent financial challenges and growing backlog. The Administration generally supports the bill's provisions giving the USPTO authority to adjust patent and trademark fees as needed to accurately recover the costs of providing services to innovators and to create incentives that spur innovation. However, the Administration would like to work with Congress to ensure that intermediate steps, such as a limited interim fee adjustment, can be taken while a longer-term fee schedule plan is developed and to ensure that the fee-setting authority provides the USPTO Director with the discretion to promptly adjust all fees, as necessary, to recover all USPTO operational costs and improve the quality of the USPTO's work product.

### ***Rulemaking Authority***

Current law limits the USPTO Director's ability to implement needed reforms through the promulgation of administrative regulations. And, the U.S. Court of Appeals for the Federal Circuit has ruled that "Congress has not vested the [USPTO Director] with any general substantive rulemaking power. . . ." *Merck v. Kessler*, 80 F. 3d 1543, 1550 (Fed. Cir. 1996).

Substantive rulemaking authority would remove doubt raised regarding the USPTO Director's authority to adopt rules in light of *Tafas v. Dudas*, 541 F. Supp. 2d 805, 814 (E.D. Va. 2008); aff'd in part, rev'd in part, *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. March 20, 2009); vacated, petition for rehearing en banc granted (Fed. Cir. July 6, 2009). Furthermore, substantive rulemaking authority would give the USPTO Director the ability to provide flexibility in the administration of patent rules and procedures. At a minimum, USPTO should have procedural rulemaking authority over proceedings in the agency.

### ***Post-Grant Review and Other Quality Enhancements***

The Administration supports the establishment of a phased-in post-grant review procedure, as well as phased-in changes to *inter partes* reexamination, to reduce costs and increase certainty by offering a lower-cost and faster alternative to litigation as a means of reviewing questions of patent validity. Such a procedure also would provide a check on patent examination, ultimately resulting in higher-quality patents. It is important that post-grant review procedures be designed to prevent delay and abusive challenges.

A post-grant review procedure like that envisioned by S. 515 would improve the quality of patents and lead to significant savings by avoiding unnecessary litigation. At the same time, any review procedure would increase USPTO's costs. The USPTO would benefit from the flexibility to set or adjust fees to recover the cost of doing the applicable work. Depending on the scope and timing of post-grant review, intermediate steps to ensure adequate resources may need to be explored until a new fee schedule can take effect. We would be pleased to work with Congress to develop procedures to meet the above goals or to provide technical drafting assistance on these provisions.

## **PATENT QUALITY & HARMONIZATION**

Improving the patent application process and enhancing patent examination are necessary components in improving the speed of review and quality of grants. We endorse transitioning the United States to a first-inventor-to-file system and recommend adopting more harmonized definitions related to the scope of prior art. We also recommend refraining from limiting search and examination duties so that the benefits of work-sharing agreements between the USPTO and other entities may be optimized.

### ***First-Inventor to File and Prior Art Review***

The Administration supports the transition of the United States to a "first-inventor-to-file" system from the current "first-to-invent" system. The transition would simplify the patent process, reduce legal costs, improve fairness, and make progress toward a more harmonized international patent system. As global trade increases, more and more applicants are seeking worldwide patent protection. However, given the differences in national laws, obtaining patent protection in numerous jurisdictions is complex, time-consuming and resource intensive. Patent law harmonization will not only lead to enhanced efficiency, but will also provide greater predictability, reliability, and competitiveness for American innovators.

While we support the transition of the United States to a “first-inventor-to-file” system from the current “first-to-invent” system, we wish to work with the Congress to make various adjustments to implementing provisions regarding the scope and application of prior art and the grace period, and to ensure that the transition provides for adequate and fair treatment of all stakeholder interests.

### ***Search and Examination***

The Administration opposes the provision in the bill relating to the search and examination duties for the grant of a U.S. patent, since it likely will serve to limit or otherwise adversely affect the scope and nature of benefits to be derived from negotiation of work-sharing agreements between the USPTO and other entities, such as foreign patent offices. Because of the large number of patent applications filed each year in multiple patent offices around the world seeking protection for the same invention, and the highly duplicative work conducted by the world’s patent offices in examining these applications, we believe that greater work-sharing among patent offices would be helpful in managing patent application backlogs. The USPTO has several work-sharing pilot programs in place with other patent offices, attempting to address the backlog challenge. The uncertainties and potential litigation from this provision will have a chilling effect on these efforts to make patent examination more efficient, and will hamper if not preclude future work-sharing efforts. Additionally, this provision will likely result in other patent offices adopting de facto one-way work-sharing arrangements with the USPTO, since they would be able to make use of USPTO examination results but the USPTO may not be able to make use of examination results from other patent offices. Moreover, the “sovereign function” provision also would limit or preclude efforts to work with the public and the global patent community to obtain comments on pending patent applications, and would prohibit working with U.S.-based vendors of patent-related services, even in the case of treaties permitting cooperation with foreigners.

## **LITIGATION MANAGEMENT**

To improve patent litigation and balance the rights of patentees and other commercial actors, we generally support the balanced compromise on damages which maintains the Federal courts’ flexibility to determine reasonable royalty damages through a “gatekeeper” approach reflected in recent court decisions as well as the purpose of the willful infringement and enhanced damages standard.

### ***Assessment of Damages***

The Administration understands the concerns of all industries participating in the damages debate, and seeks an approach to clarifying the law of reasonable royalty damages in a way that prevents lottery-atmosphere awards while still ensuring fair compensation for the infringement of important patented inventions. The Administration believes S. 515 and developing judicial authority could balance the concerns of all members of the innovation community. It remains to be seen how these recent judicial rulings will be applied to address legitimate concerns about the escalation of damages awards. Data suggests, for example, that the median jury award for patent damages increased significantly from 1991 to 2005. The Administration recognizes that substantial work has been done to bring together these competing

interests and supports the compromise “gatekeeper” approach to damages reform contained in the bill.

***Willful Infringement and Enhanced Damages***

Patent law provides that a patentee is entitled to enhanced damages for willful infringement, but this willfulness standard is not defined by statute. A finding of willful patent infringement can have significant consequences. The court may treble the damages and award attorney fees. With patent litigation costs a concern for many, the threat of enhanced damages can be quite substantial. Concerns have been expressed that willfulness is unnecessarily alleged with great frequency and alleged infringers have to bear the expense of defending such actions. While we generally support the relevant provisions in the bill, we wish to work with Congress to craft clarifying language that will help to ensure a fair enhanced damages standard.


**MISCELLANEOUS**

***Telework Test Program; Virtual Marking; Inventor’s Oath or Declaration; Pre-issuance Submission by Third Parties; Prior User Defense; Best Mode; Venue, Interlocutory Appeals and Jurisdiction; and Patent Expertise for Judges Pilot***

The Administration supports creating a telework test program to allow the USPTO to expand its examiner base and retain valued employees, and permitting virtual marking of patented articles on a USPTO-managed website to provide innovators a cost-saving alternative for marking products. We endorse the change in the inventor’s oath requirement to facilitate an assignee’s filing and prosecution of patent applications, and support expanding pre-issuance submissions by third parties to improve the efficiency of the examination process. Finally, we support extending the existing prior user defense for patent infringement; removing sanctions for failing to comply with the best mode requirement; limiting the applicability of revised approaches to interlocutory appeals and codifying recent judicial decisions improving the handling of venue challenges; and creating a pilot program that enhances judges’ patent expertise. However, we have a number of technical concerns with the bill’s language on these issues and look forward to working with the Congress to craft language that addresses these concerns and passing legislation that improves our patent system.

The Office of Management and Budget has advised that there is no objection to the transmittal of these views from the standpoint of the Administration’s programs. If you have any questions, please contact me or April Boyd, Assistant Secretary for Legislative and Intergovernmental Affairs, at 202-482-3663.

Sincerely,



Gary Locke