

*Before the*  
**Department of Commerce**  
**U.S. Patent & Trademark Office**  
Alexandria, Virginia

*In re*

Notice of Public Hearing and Request  
for Comments on the Study of Prior  
User Rights

Docket No. PTO–P–2011–0060

**COMMENTS OF  
COMPUTER AND COMMUNICATIONS INDUSTRY ASSOCIATION**

Pursuant to the Notice of Public Hearing and Request for Comments on the Study of Prior User Rights issued by the United States Patent and Trademark Office and published in the Federal Register at 76 Fed. Reg. 62,388 (Oct. 7, 2011), the Computer and Communications Industry Association (CCIA) submits the following comments.

**I. About CCIA**

CCIA represents large, medium and small companies that participate in the information and communications technology industries, including computer hardware and software, electronic commerce, telecommunications and Internet products and services. CCIA members represent more than \$200 billion in annual revenues.

**II. Comments on Prior User Rights**

Prior user rights are a standard feature of national patent regimes. In practice, they generate little litigation and virtually no controversy. While the U.S. may be more litigation prone than other countries, the pre-AIA version of Section 273 did not generate litigation.

As the U.S. Supreme Court made clear in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), patents and trade secrets are independent regimes. Even though trade secrets may also

help to promote innovation and economic growth, the choice of when to use one or the other is not always clear-cut – and depends on practical and strategic considerations. This is a business decision that does not see the two regimes as mutually exclusive. It should not be dictated by self-interested champions of one regime or the other. Patents can protect self-disclosing subject matter; trade secrets do not. Trade secrets can protect a variety of business information that does not qualify for patent protection. Some subject matter – notably industrial processes – can be protected either way. Since both means of protection serve economic ends, the economic effects of each must be recognized – at both private and social levels.

### **Costs, Benefits, and Risks**

The 1994-1995 Carnegie Mellon survey showed that in most industries secrecy is more valued than patents as a means of appropriating returns from innovation.<sup>1</sup> In any well-run operating firm, secrecy of internal operations is the default: Employee contracts and conventional controls on access to facilities work efficiently in concert with the law of trade secrets to preserve secrecy, especially in industrial processes. Once basic precautions and routines are established, the zone of protection can be expanded indefinitely at little additional cost. The legal protection offered by trade secret law reduces the costs of investing in physical restrictions on access and exhaustive contracting to protect specific information.<sup>2</sup>

At the same time, legally enforceable secrecy does not impose the heavy costs and risks on other innovators that patents impose. Secrecy does not preclude independent invention, so

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<sup>1</sup> 21 out of 35 industries viewed secrecy as the most effective means for appropriating returns from process innovation; only one viewed patents as the most effective means. The “Carnegie Mellon survey” [Cohen, W. M., R. Nelson, et al. (2000), “Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)”, NBER Working Paper No. 7552. Washington, DC, NBER] showed an increased preference for secrecy relative to the earlier “Yale survey” [Levin, R. C., A. K. Klevorick, et al. (1987), “Appropriating the Returns from Industrial Research and Development.” *Brooking Papers on Economic Activity* 3: 783-831].

<sup>2</sup> Lemley, Mark A., *The Surprising Virtues of Treating Trade Secrets as IP Rights* (June 1, 2008). *Stanford Law Review*, Vol. 61, p. 311, 2008; Stanford Law and Economics Olin Working Paper No. 358, *available at* <http://ssrn.com/abstract=1155167>.

there is no need to assume the burden of reading and evaluating thousands of patents. The digital revolution may induce a perception that information is free; in reality assimilating information into useful knowledge is costly, especially when relevance and meaning must be extracted from large volumes of information about marginal or low-value process improvements.

There is a rough symmetry here. Secrecy may not protect against independent invention as patents do, but, conversely, secret infringements of patented processes are difficult to detect. Moreover once a patent application (or patent) is published in one country, the knowledge is instantly available to the rest of the world, and it is costly to seek patents in every country where the patent may be practiced. The benefits of doing so must always be discounted by the practical ability to enforce the patent.

While secrecy protects great swaths of activity, patents must be sought one at a time, each requiring a substantial investment in time and resources to formally express an invention that stands against the vast body of public knowledge. The faster and more continuous the process of innovation, the greater the burden. Each published patent application reveals business direction and forfeits secrecy in all countries where patent protection isn't sought.

Patent protection may not be desirable in other circumstances where disclosure can have adverse consequences. For example, disclosing search engine algorithms would facilitate gaming the results. On the other hand, secrecy is ineffective where the technology can be readily reverse-engineered. Where regulatory approval is needed, secrecy is impossible.

### **Prior User Rights**

Most arguments against prior user rights focus on the public disclosure function of the patent system – the principle that the patentee receives a limited monopoly in return for disclosing new knowledge to the public. Prior user rights do not change this basic *quid pro quo*.

On rare occasions, they may limit the ability of the patent owner to assert the patent against a single manufacturer, but since prior user rights cannot be transferred or asserted, the patent is still effective against the rest of the world.

Eliminating prior user rights would compel firms to aggressively seek patents on minor improvements despite the very limited public benefit. (In many case, the process improvement may be significant only in the context of other internal processes, which remain secret and perhaps unique to the firm.) Overriding cost-sensitive common-sense management of intellectual property in pursuit of some abstract ideal of public disclosure makes little sense in fields that are already inundated with patents of dubious quality and value.

There is growing evidence that patents often fail to provide effective notice or disclosure to other innovators, although this depends greatly on the nature of the technology. For example, the abstract and changing language used in software and business method patents creates fuzzy boundaries that undermine the notice function.<sup>3</sup> If relevant patents are hard to identify and interpret, few will find patents a useful source of information.

The assumption that innovators do not read patents has prompted one scholar, Lisa Larrimore Ouellette, to set it up as a strawman and conduct a survey of nanotechnologists that suggests otherwise.<sup>4</sup> However, while finding that 64% of the respondents had actually read patents, only 70% of those who had read patents looked to patents for technical information. While 60% of the latter (27% of all respondents) found useful technical information, a mere 38% of them (17% of respondents) believed that the patents they were reading were reproducible. Far from supporting the effectiveness of disclosure, the survey,

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<sup>3</sup> Bessen, James and Michael J. Meurer, *Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk*, Princeton University Press, March 2008, chapter 3, *available at* <http://www.researchoninnovation.org/dopatentswork/dopat3.pdf>.

<sup>4</sup> Ouellette, Lisa Larrimore, *Do Patents Disclose Useful Information?* (July 15, 2011). *Harvard Journal of Law and Technology*, Vol. 25, Forthcoming, *available at* <http://ssrn.com/abstract=1762793>.

supplemented by colorful descriptions of the problem of patent language, illustrates the failure of the disclosure function – even in a field firmly grounded in the physical world.

Low standards of inventiveness and low quality of issued patents add to the problem. The enhanced presumption of validity recently endorsed by *Microsoft v. i4i*, 131 S.Ct. 2238 (2011), makes marginal patents more valuable, inducing still more low-value filings. Portfolios that were arguably defensive at the outset have become useful as proprietary thickets that discourage new entrants, adding further to demand. The aggregate costs of managing information and knowledge about patents make clearance searching impractical. The opacity of the system produces information asymmetries, incentives and opportunities for hold-up, and aggregated thickets. The overabundance of low-value information feeds back into the process of patent administration, exacerbating the tradeoff between the speed and quality of examination – and contributing to the backlog at the USPTO.

The move to first-to-file priority will naturally induce risk-averse patent departments to accelerate filing. It will induce increased filing if effective prior user rights are not available. This would inevitably contribute to the problems of overpatenting in a system where patents are cheap, easy-to-get, and artificially enshrined with a heightened presumption of validity. The USPTO already grants nearly four times as many patents each year as the EPO. Without a prior user right mitigating the harsh consequences of losing not only the race to the patent office but the freedom to operate, the pressure to rush half-baked applications to the USPTO will only intensify.

The likelihood of conflict between patent holders and prior user interests is directly related to patent quality. If patent quality is high, conflicts with prior users will be very rare. Since university patents are science-based and acknowledged to be of high quality, universities

have little reason to be concerned about prior user interests. In this light, the carve-out for federally funded university research makes little sense.

Similarly, the requirement that commercial use be established at least one year prior to the filing date makes little practical sense to the first inventor. The first inventor will not normally know that a patent has been applied for until the application is published – most likely 2½ years later. This long period of uncertainty created by the one-year requirement may be tolerable in mature, slow-moving industries, but it will undermine confidence in new fast-moving, innovation-driven industries that are most essential for economic growth and job creation. Failure to provide timely prior user rights to protect American producers can only encourage them to move to the many more accommodating jurisdictions.

### **Conclusion**

The tradeoff between patents and trade secrets looks appealing as legal doctrine. It is only meaningful in some fields, such as pharmaceuticals and biotechnology, where patents are routinely read. But, as shown in the recent FTC report, *The Evolving IP Marketplace*,<sup>5</sup> the disclosure function fails miserably in information technology, software, services, and business practices – and results in *ex post* licensing that serves only to settle patent claims, not to transfer technology.

Attempts to draw a bright line between patenting and secrecy force innovative companies to act at their peril – and add further to the great risks that innovative companies face in developing and marketing new technology.

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<sup>5</sup> Federal Trade Commission, March 7, 2011, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

Respectfully submitted,

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