

Statement of

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and

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before the

**Subcommittee on Intellectual Property
Committee on the Judiciary
United States Senate**

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Mr. Chairman, Senator Leahy and members of the Intellectual Property Subcommittee,

My name is Todd Dickinson and I am honored to appear before the Subcommittee on an issue that sometimes does not have the broad passion of other issues, but is critical to our Nation's economic growth and prosperity: patent reform. I presently serve as the Corporate Vice President for Intellectual Property of the General Electric Company, and was formerly Undersecretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, and I hope that these two distinct, though complementary, experiences may offer a unique perspective on some of the issues facing us in this arena.

As Director, I enjoyed working with you in the past, Mr. Chairman, and with Senator Leahy and your staffs, on the cause of adapting our patent system to the needs of the 21st Century. I was particularly proud that the Congress passed and President Clinton signed the American Inventor's Protection Act of 1999, during the time I lead the USPTO, and that we had the opportunity to work together on the implementation of that Act, leading to many vital and important changes in how the USPTO operated and was organized.

At General Electric, I am fortunate to help manage the intellectual property assets of one of the world's largest corporations, whose IP holdings and concerns are extraordinarily broad, ranging from content-based copyright issues in our film and television organization, NBC Universal, to genomics and proteomics patenting in GE Healthcare, with everything else in between

from aircraft engines to engineered polymers. It is said that we may be the only company that has won both a Nobel Prize and an Academy Award[®]. We are also often cited as one of the world's most famous and valuable brands.

In many ways because of that breadth of IP issues and concerns, we are uniquely positioned to participate in this debate about patent reform, being a member of PhRMA, BIO, the Financial Services Roundtable, MPAA, and NAM. I also serve on the Board of Directors of the Intellectual Property Owners (IPO), and the Council of the American Bar Association Section on Intellectual Property Law and its delegate to the World Intellectual Property Organization's Standing Committee on Patents, and am a member of the American Intellectual Property Law Association.

With such an extraordinary investment in technology, the need to protect that investment and the shareholder value it represents, makes the U.S patent system and its global analogues, more important than ever to us at GE. While our system is one of the greatest and most productive in the world, as with all systems, evolving needs require a regular review and reform in order to ensure the promise of the system is one which is fulfilled. So it is with our patent system in the U.S.

In my previous role as USPTO Director and now at GE, I have also followed with keen interest the various studies undertaken of the U.S. patent system recently undertaken by the Federal Trade Commission and the National Research Council of the National Academy of Sciences and the resulting reports. I was a witness several times before both bodies and was a

reviewer of the NAS report. In general, both reports were thorough, well-thought out, and made recommendations the majority of which were highly appropriate to advancing the cause of patent reform in positive ways. I am heartened that the reports have served as a motivation for the cause of patent reform, and applaud this Committee for its hearings on this topic.

As someone who has also spent a significant amount of time and effort on the cause of international harmonization of patent systems and laws, I also appreciate greatly the Committee's review of these issues, particularly as they intersect with the work and recommendations of the FTC and the NAS. The U.S. has always taken a leadership role in intellectual property policy and administration in the world, and this debate is in large part about how we can continue to manage and expand that global leadership role.

Harmonization

One of the most critical issues facing the patent system today globally, is the tremendous need for harmonization of patent laws and administration. With their territorially-based administration, maintenance and enforcement regimes, the current systems foster extraordinary redundancies in cost, time, and resources. They significantly inhibit the ability of inventors, large and small, to obtain and maintain the protection they deserve, and encourage the innovation so vital to global economic development. GE spends some \$23,000,000 per year on patent prosecution and maintenance, a significant portion of which is a function of the multiplicity of world systems.

Efforts at increased harmonization have been debated for years, with only modest success. As a negotiator of IP issues on behalf of the U.S. government, and as a delegate to the World Intellectual Property Organization, I have witnessed the frustrations in this area first hand. While we have succeeded in negotiating new treaties in many other areas of intellectual property over the last decade to deal with rapidly evolving changes in the technology and content worlds, patent harmonization has proven particularly difficult and challenging for a variety of reasons. The current opportunity that patent reform in the U.S. has for informing and influencing this global debate is enormous, however, and is a key component of its importance and value.

First-Inventor-to-File

One of the most important of those reasons is the perception that global harmonization cannot proceed without agreement on the basic question of who is entitled to priority of invention. Alone among the world's countries, the U.S. has maintained a system awarding priority of inventorship to the so-called "first inventor". This seemingly innocent characterization has become fraught with difficulties of definition, proof and cost. All of the rest of the world awards priority to the first inventor to file their patent application. While this debate has been ongoing for decades, the time appears to be at hand for the U.S. to join the rest of the world in implementing this simpler, fairer and less burdensome means for awarding priority.

As the groundbreaking study by my colleague and friend, former PTO Commissioner Gerry Mossinghoff, has shown, the very individuals who in recent tradition have been most concerned about this change, the individual or small inventors, have actually been disadvantaged by our current system. The primary means for determining inventorship when there is a contest is a process in the USPTO known as interference. Costly¹, rule-bound, and time-consuming, the interference process is a failed promise for small inventors.

Moreover, since this was last seriously debated at the international level, during the first Bush Administration, many other structural and systemic changes have helped level playing field relative to concerns previously expressed. The adoption of provisional applications, the availability of technical and legal resources on the internet, and electronic searching and filing capabilities on-line have made the application process more accessible and timely to all Americans.

This past year, both the National Academy's report and the American Bar Association's House of Delegates, have urged the U.S. to change to a "first-inventor-to-file" (FITF) system as a best practice. While it has sometimes been suggested that the U.S. should not unilaterally move to this FITF system, and should only consider it as part of an overall package of international harmonization treaty obligations, the advantages of this system in terms of simplicity, cost, and a serious reduction in uncertainty about priority, argue strongly in favor of making such a change now. It may also

¹ It is often estimated that the cost of an interference from declaration to resolution is routinely in the hundreds of thousands of dollars. [CITATION]

be that such a good faith move on the part of the U.S. will move stalled negotiations at the WIPO forward, an important and valuable goal. I join with my colleagues in support of proposed changes which would amend 35 U.S.C. to award priority to the first inventor to file a patent application, and urge this subcommittee to include language to that effect in any patent reform statute under consideration.

Grace Period

Another extremely valuable and important aspect of U.S. patent law, which has often been linked to the “first-inventor-to-file” issue in international discussions, is the so-called grace period, under which U.S. law provides for a one-year period following disclosure of the invention during which the patent application may be filed. The grace period has provided significant and advantageous flexibility, especially for small inventors, and it is critical that it be maintained as part of any patent reform package.

Proposed legislation, H.R. 2795, acknowledges that importance, while making several changes which would seem acceptable and advance the cause of global harmonization. Limiting the applicability of the grace period to the inventor’s own disclosures, while indeed limiting, seems a modest change given the philosophical underpinnings of the grace period itself. Much of the concern about possible grace period changes has spoken to the loss of rights due to inadvertent or academic disclosures. These are made almost entirely by the inventors themselves, so such a limitation is not seen as significant.

Another provision which is intriguing, seeks to strongly encourage the European Patent Convention and the Japanese Patent Convention to adopt a similar grace period in order to allow their respective nationals to take advantage of the grace period in the U.S.² While there may be concern about possible backlash from the affected countries, the provision would seem to provide powerful encouragement to them to adopt the compromise they have long-promised in international discussions: “We will adopt the grace period, if you move to first-to-file”.

Other harmonization issues

In the draft bill, H.R. 2795, several additional provisions address harmonization issues which are deserving of serious consideration. These include: elimination of the best mode requirement, permitting the filing of the application by or in the name of the assignee, and publication of all pending patent applications (i.e. eliminating the “opt out” provision in current law). These have been thoroughly considered in either or both of the FTC and NAS studies and have been widely discussed in the IP community. They are worthy and for the most part non-controversial and should be included in any final patent reform legislation.

Post-Grant Review

Of all of the recommendations of the FTC and NAS reports, that which has been the subject of the most discussion and in many ways is the cornerstone of patent reform efforts, is implementation of a robust post-grant review or

² H.R. 2795, § 11(h)

opposition system. This is a direct response to both a strong concern about patent quality and the need for new means to address that concern.

Additionally, opposition proceedings are fairly common in foreign patent regimes, the EPO being a significant example, and the adoption of a similar system in the U.S. would also be consistent with the goal of increased global harmonization.

In my experience, the USPTO does a very effective job with the resources it has available to it. I have strong confidence in strength and validity of the vast majority of the patents which issue. That said, given the critical importance of patents to our economic health and the need for greater confidence in our system and the ability of the USPTO to maintain and improve patent quality, additional means for improving that quality are appropriate and necessary. Mechanisms which have been implemented in the past to address these concerns, such as *ex parte* and *inter partes* reexamination, Rule 99 pre-grant submissions of prior art, and Section 301/Rule 501 post-grant submissions of art, for a variety of reasons have not, unfortunately and despite our best intentions, met this challenge sufficiently. There is a critical need for a system which allows the USPTO to continue to improve the quality of issued patents in a timely and efficient manner. For matters of validity determination, the USPTO is uniquely positioned to perform this function, both by virtue of technical expertise and administrative efficiency, assuming they have adequate access to the appropriate art necessary for the validity determination. A vigorous post-grant review process would allow the USPTO to meet this challenge.

Such a system would likely involve many “moving parts”, all of which would need to work together and meet the goals of efficiency and effectiveness. The current H.R. 2795 strikes the right balance on most of these issues, no small feat. For example, the opportunity for adequate discovery in order to address concerns about the estoppel effect of any determination is a key concern. This needs to be balanced against concerns about discovery abuse and cost which continue to plague patent litigation. Another concern is the threshold requirement for bringing the action in the first instance. By adopting a standard similar to that for *ex parte* reexamination, “a substantial question of patentability exists for at least one claim”, and leave it to the Director’s judgment as to whether that standard has been met, the statute would require an appropriate showing without unduly burdening the system.

It is heartening to note that there has been widespread agreement and consensus on the need for such a system and the appropriateness of the current proposals. There is one specific issue on which there is unfortunately not consensus and no small amount of controversy: the so-called “second window”. The current draft provides that the opposition request must be brought within 9 months of the issuance of the patent in question. However, it also provides that an opposition action may be filed not “later than 6 months after receiving notice from the patent holder alleging infringement.”³

³ H.R. 2795, §323.

“Second Window”

The debate here has centered basically on whether such a “second window” of opportunity to oppose an issued patent unnecessarily increases uncertainty in the validity of issued patents versus allowing expanded opportunities for improving quality, especially in industries or technologies where searching or interpretation of claims may be more difficult. While I have concerns about such uncertainties, I do believe that the USPTO is an particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment.

That said, one specific concern I would have at the outset, however, is whether the initial administrative burdens imposed by the “second window” may overburden the USPTO at the outset of the establishment of what is a new and complex procedure. It may be appropriate to delay the imposition of the “second window” until such time as the opposition system for newly issued patents has been up and running for some period of time, and the USPTO has had adequate time to develop and have experience with it. This would also provide an opportunity for continued discussion and perhaps more consensus around the specifics of the “second window” process.

An alternative to consider might be to not have the presumption of validity, which a patent current currently enjoys in litigation from the date of issuance, not come into force until the period of opposition has passed. This would additionally encourage review of patents as they issue, and has a

parallel in the trademark system, in which trademark registrations become “incontestable” after a certain period upon the filing of petition and the payment of a fee.

Finally, such an opposition system must be sufficiently funded, from the outset, in order to work well and provide its promised benefits – no small challenge, given recent appropriations concerns. While H.R. 2795 provides that the Director may establish fees to be paid by the opposer, it is highly unlikely that specific opposition fees alone would be adequate, especially without overly discouraging use of the system. Such funding would almost assuredly have to come from an increase in the USPTO budget, and most likely from a supplemental appropriation in the short-term.

Pre-issuance Submissions of Art

As noted above, Rule 99 (37 CFR 1.99), permits the submission of art to the USPTO ordinarily subsequent to the publication of the application. This provides the opportunity to have additional art before the Examiner during examination, but restricts the ability of such submitters to render such submissions into de facto protests or pre-grant oppositions, both of which are prohibited by 35 U.S.C. § 122. In practice, this has proven not to be often used and its benefits significantly underrealized, a fact which is greatly disheartening to me as a major proponent of the Rule. Moreover, the concerns on which §122 were originally premised seem likewise not to have come to fruition. H.R. 2795, §10, therefore seeks to amend §122 in very appropriate ways to significantly expand statutorily the opportunity for such submissions, while protecting the system from inappropriate gaming.

Litigation Reform

Both the FTC and NAS reports in various areas, recommended a need for a reduction in subjectivity as a issue in the procurement and enforcement of patents. Several of these recommendations have been included in the proposed statute, H.R. 2975. These include modifications to the law of willful infringement, which may result in the imposition of increased damages, and to the law on inequitable conduct, which currently provides that a patent may be found unenforceable due to such inequitable conduct in particular when the duty of candor and good faith to the USPTO during prosecution has been breached. These are valuable issues to be addressed, in particular because both have sometimes resulted in negative, unintended consequences, such as a failure to search the patent literature before introducing products into the marketplace, and an observed tendency to assert the inequitable conduct defense in almost all patent litigation, thereby driving up its costs and complexity.

With regard to the current draft dealing with inequitable conduct, however, additional study may be justified. The currently proposed legislation provides the statutory authority for the Director of the USPTO to issue regulations governing the applicants' duty of candor. This retains that duty, while enhancing the Director's authority in this area, and is highly appropriate. H.R. 2795, however, also provides that courts refer all matters of inequitable conduct to the USPTO and that the agency is then charged with investigating these issues as a matter of attorney or agent conduct, with the ability to conduct hearings and levy not insubstantial fines.

As a former USPTO Director, this seems to me to be a very difficult and cumbersome mechanism to deal with this issue. Concerns have been expressed in the past about the impact on the patent as a whole under the current regime, i.e. complete unenforceability, as too drastic. It strikes me as even more drastic, and therefore by extension even less likely to lead to compliance with the duty of candor, to expect the Office to serve as a “disciplinary policeman” in this area. Their experiences generally in the past in this regard have not been positive, and it seems reasonable to expect that they would be subject to the same fate under this proposal.

Injunctions

One issue that has been the subject of possibly the most debate and controversy to this point, but which interestingly was not recommended in either of the major reports from the FTC and the NAS, is changing the standards for injunctive relief. These have been the particular concern of a few specific industries, software and some in the financial services sector, in particular, which have purportedly caused draft language to find its way into the proposed legislation. The apparent goal is to limit the availability of permanent injunctions in certain circumstances and thereby reduce the ability of certain types of patent holders to leverage those patents in litigation or licensing negotiations. These type patent holders have come to be identified by the sobriquet “patent trolls”.

This debate and possible legislation raises several very serious concerns. There is appropriate apprehension about the impact of patent holders whose sole purpose appears to be acquiring and using patents of dubious quality or

breadth as speculative investments, without adding to technological or economic development. On the other hand, many patent holders are individuals or universities whose only means of competing with much larger entities is using their innovation and the resulting patent protection to negotiate for the development of that innovation.

The challenge arises not so much in addressing the problem (although in my experience I would suggest it is far more limited than its opponents have suggested and is aggravated by certain behaviors on their parts), but rather with the proposed solution. As a property right, and an exclusory one at that, the patent right requires in its very being that it be actively enforceable by the courts from others from trespassing on it. This is particularly true in the case of permanent injunctions that result from final adjudications and appeal. To do otherwise, is to erode the value of the patent portfolio, and for a company like GE, erode shareholder value. We have an enormous investment in research and development, and must have the ability to protect that investment. To limit our ability to obtain permanent injunctions, is to limit that protection in ways we currently find unacceptable.

Moreover, in the context of international harmonization, such an amendment would send a highly negative signal about the commitment of the U.S. to enforcing its intellectual property rights to those countries or entities in the world who question or oppose such rights. As we continue to struggle for harmonization, it would more than counter-productive to send such a signal.

It is encouraging, however, that most of the other provisions which attempt to address litigation reform have met with general acceptance. It would be

disappointing if the insistence on one particular proposal which is so controversial, and opposed by most major IP institutions from the IPO and AIPLA to independent inventors and universities, was to scuttle chances for meaningful patent reform. Surely some other means for attacking the patent troll speculator problem can be found.

Conclusion

In conclusion, I would like to thank the Subcommittee for giving me the opportunity to testify today, and look forward to working with you and your staff as you craft this vital and important legislation.