STATEMENT OF

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ASSISTANT SECRETARY OF COMMERCE

OFFICE OF PRODUCTIVITY, TECHNOLOGY, AND INNOVATION

BEFORE THE

COMMITTEE ON THE JUDICIARY

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES,

AND THE ADMINISTRATION OF JUSTICE

HOUSE OF REPRESENTATIVES

CONCERNING

H.R. 6933 AND H.R. 3806

ON

APRIL 24, 1980

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you again to present the Administration's views on H.R. 6933 and H.R. 3806, legislation which would implement a major part of President Carter's Industrial Innovation Program. My opening remarks will not be lengthy. Secretary Klutznick, Assistant Attorney General Rosenberg, and Patent and Trademark Commissioner Diamond already have discussed with you the details of government patent policy, contained in H.R. 6933; the Court of Appeals for the Federal Circuit, contained in H.R. 3806; and patent reexamination and Patent and Trademark Office fees, also contained in H.R. 6933.

In my written statement, I want only to restate the importance the Administration attaches to these bills. At the

conclusion of my brief prepared remarks, I shall be pleased to try to answer any questions you may have about our legislation.

We approach these patent-related issues with the belief that industrial innovation -- the development and commercialization of new products and processes -- plays an important role in our Nation's economic well-being. The Administration's legislation seeks to advance the public interest by making of the patent grant the strong incentive it should be for entrepreneurs to invest risk capital in the innovation process. In the area of government patent policy -- the allocation of rights in patentable inventions resulting from federally-supported or sponsored research and development -- the Administration seeks to maximize the public availability of publicly-funded inventions.

The Constitution empowered the Congress to create a patent system to advance the progress of science and the useful arts by securing certain rights in inventions to inventors. The

difficult task of the Patent and Trademark Office (PTO) is to carry out its Constitutional and Congressional mandate of determining patentability. For the most part, this involves complex decisions about the novelty and unobviousness of technology for which patents are sought.

Upon the accuracy and reliability of the PTO's findings depends the usefulness of the patent system as an element of the industrial innovation process. Ordinarily, entrepreneurs will not venture risk capital in the commercial development of an invention without patent protection. Usually it is a difficult, chancy process to develop and market something from the stage of patenting to that of commercial success. Once the task has been successfully accomplished, however, it often is easy for would-be competitors, who now see that it can be done, to cheaply copy the new product. Were this copying permitted, innovators would be unable to recover their investments and would cease to invest unless alternate forms of protection were available, for example, by keeping the invention a trade

secret. The patent system secures for the public both the knowledge of the patented invention and its commercial development.

Unfortunately, the strength of the patent incentive has eroded in recent years. Unresolved conflicts among the circuit courts of appeal in the interpretation of the patent laws, have led to an unnecessary proliferation of litigation, an inefficient use of resources, and undesirable forum shopping.

H.R. 3806 would solve this problem by creating a Court of Appeals for the Federal Circuit. This court, in addition to hearing appeals on a variety of other matters so as to prevent an over-specialized or clientele-captive court, would have exclusive jurisdiction to hear appeals of all patent-related federal cases. By this means we would achieve uniformity in the application and interpretation of the patent laws. Of course, further appeal still could be had to the Supreme Court.

Another serious problem which leads to increased litigation and decreased strength of the patent incentive is the inability of the PTO during the application process to examine a commercially significant patent with the same degree of thoroughness possible for someone financially interested in proving its invalidity. I might say that this inability is inherent in having a patent system in a world of limited resources and in no way reflects adversely on the quality of the Patent and Trademark Office nor in any way suggests a willingness on the part of the Administration or the Department of Commerce to settle for a second-rate patent system.

Some of the limitations on the quality of initial examination are remediable and this Administration is taking steps to upgrade the operations of the PTO, for example, by joining in a Defense Department experiment to determine the feasibility of computerizing the PTO search system. Other limitations cannot be overcome prior to issuance of a patent.

To examine every patent and every publication in every country in a reasonable time and at a reasonable cost is a clear impossibility with respect to every patent application. After a patent has issued and become commercially significant, someone interested in challenging the patent can devote substantially more time and money to investigating prior patents and printed publications possibly bearing on its validity than the PTO could during initial examination.

H.R. 6933 would solve this problem by creating a new system for the reexamination of issued patents with respect to prior art consisting of patents and printed publications. In most cases where patents are invalidated, the court relies on prior art not considered by the PTO. We expect, therefore, that institution of reexamination will lead to a substantial reduction in litigation, a substantial reduction in the expense of litigation, and a substantial increase in the strength of the patent incentive for industrial innovation.

For some time, taxpayers have borne an inordinate portion of the PTO's expenses in administering the patent and trademark laws. Congress has not acted to raise PTO fees since 1965. Since then the percentage of PTO costs recovered by fees has declined to less than thirty percent.

H.R. 6933 would rectify this by having Congress set PTO fees in terms of recovering a fixed percentage of PTO costs instead of by absolute dollar amount. H.R. 6933 would require the PTO to charge a full cost recovery fee for those activities which primarily benefit identifiable private parties, for example, reexamination, trademark, and information services. Since the public benefits from the public disclosure of knowledge about inventions in patents, H.R. 6933 would have the government absorb a forty percent share of the cost of processing patent applications. In order to minimize the impact upon small businesses and independent inventors of recovering the remaining sixty percent of the processing costs

from fees, a system of maintenance fees to recover thirty percent of the processing costs would be established.

There have been chronic complaints about the funding of the PTO. We have taken major steps to correct this situation and to improve the internal management of the PTO. At present, PTO fee revenues are deposited in the general fund of the Treasury where they are unavailable for directly funding PTO activities. H.R. 6933 would change this by requiring that fee revenues be credited to the PTO Appropriation Account in the Treasury and by making such revenues directly available to fund PTO activities Thus, the PTO will be responsible for managing its finances more in accordance with business-like procedures since direct appropriations would be reduced and a reliance placed upon fee revenues.

H.R. 6933 also would establish a uniform government patent policy. The present maze of differing agency policies falls far short accomplishing what the economy demands by way of

public availability of federally-sponsored or supported inventions. H.R. 6933 would substitute for the close to thirty present policies, a single, two-tier system. Small businesses and nonprofit organizations, primarily universities, would obtain title to their contract inventions. Other contractors, primarily larger businesses, would obtain exclusive licenses in whatever fields of use they select and agree to commercialize. The government would retain rights to protect the public against any attempt to suppress an invention, to unreasonably restrict its availability, or to violate the antitrust laws. In addition, we would institute a vigorous program to evaluate the commercial potential of fields of use not selected by a contractor and to market commercially attractive patent rights across the entire spectrum of American industry.

Some people have suggested that enactment of a uniform government patent policy is too ambitious. They advocate lowering our sights to a small fraction of the problem, nonprofits and small businesses. I respectfully submit that this would be a serious error.

The President's proposal follows upon more than eighteen months of intensive study at the subcabinet level by ourselves, the Justice Department, and the mission agencies. H.R. 6933 represents an historic opportunity to settle an issue that has eluded resolution for over a generation. Government patent policy is not a new question.

Harbridge House conducted an extensive study for the government which was published in four volumes in 1968. Since then government patent policy has been the subject of prolonged study within the Executive Branch. Under this Administration, for the first time a President has seen fit personally to consider the issue and to propose legislation creating an across-the-board policy.

In sum, Mr. Chairman, H.R. 3806 and H.R. 6933 are the result of a carefully thought out Administration effort. Their enactment would make a significant contribution to the improvement of the climate for industrial innovation in the Nation.