

Statement of  
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before the  
Subcommittee on Intellectual Property  
Committee on the Judiciary  
United States Senate

July 26, 2005

Mr. Chairman and Members of the Subcommittee:

I am honored to be able to appear before the Subcommittee today to discuss international patent harmonization — a topic of great importance to innovation in the United States and Worldwide.

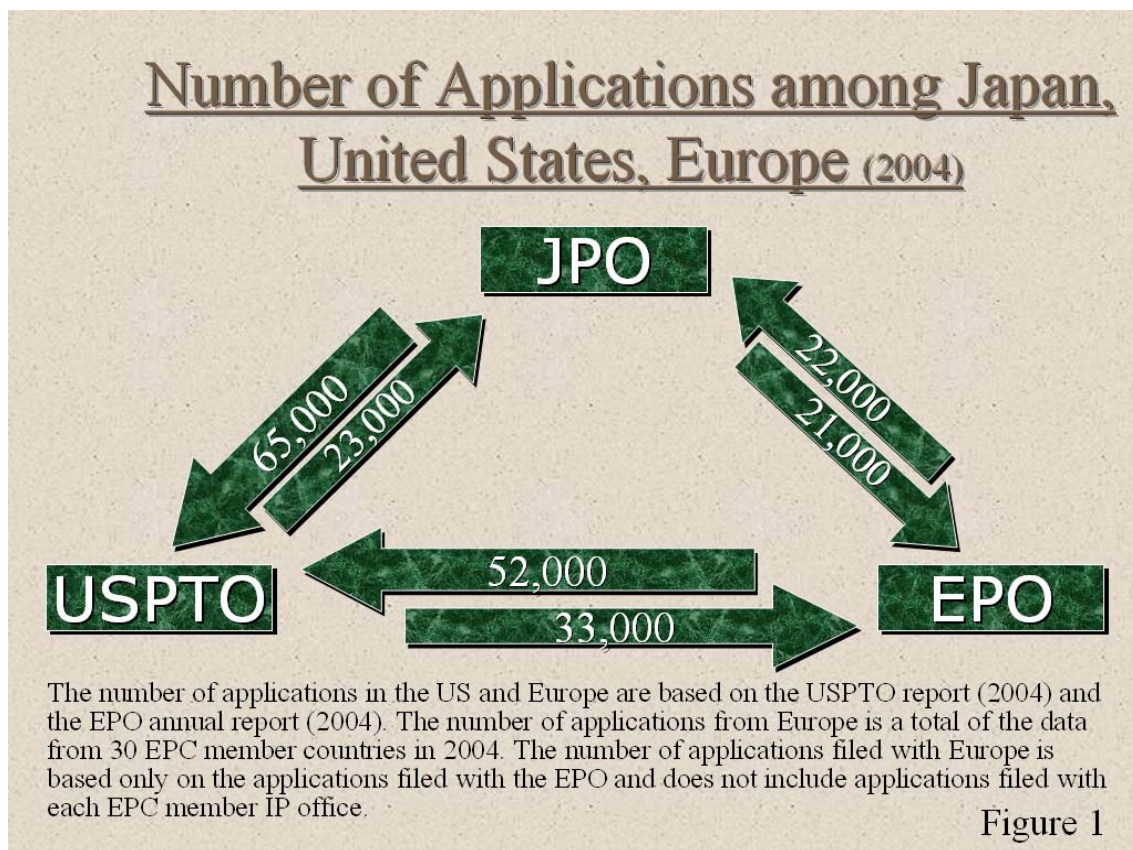
I have been an advocate of enhanced international cooperation in the patent area for a long time. When I was serving as Commissioner of Patents and Trademarks during President Reagan's Administration, I was appointed by the President as U.S. Ambassador to the Diplomatic Conference in the Revision of the Paris Convention. That nineteenth-century convention is the grandparent of all subsequent multinational treaties in the patent field. At that time also, I was elected by the member states of the United Nations World Intellectual Property Organization ("WIPO") to be the Chairman of the WIPO General Assembly. In 1983, I was pleased to be a founder of the "Trilateral Cooperation Agreement" among the European Patent Office ("EPO"), the Japan Patent Office ("JPO") and the U.S. Patent and Trademark Office ("USPTO"). I currently teach seminars at both

the George Washington University Law School and the George Mason University School of Law on Multinational Protection of Intellectual Property.

I should note that in my testimony today, I am not speaking for either the Oblon, Spivak law firm or those two law schools.

There is a debilitating redundancy built into the current national/regional patent search, examination and enforcement systems. With respect to any important invention, highly skilled patent examiners around the world C most of whom are scientists or engineers and many of whom in addition, particularly in the United States, have legal training C analyze the *same* patent application, search the *same* prior art, and perform the *same* examination before granting virtually identical patents in their respective jurisdictions. Once granted, a patent must be enforced individually in each individual jurisdiction. This unnecessary redundancy drives up the costs of obtaining and enforcing world-wide patent protection to a level that can only be afforded by the largest multinational corporations. Some time ago, the senior patent counsel of one of the world's major research-based pharmaceutical companies estimated, for example, that it costs between \$750,000 and \$1,000,000 to obtain comprehensive world-wide patent protection for an important chemical compound, and that figure is growing at a rate of 10% each year. The costly duplication of effort also adversely impacts the governments themselves, many of which are looking for ways to reduce the costs associated with patent protection within fixed or in many cases reduced resources.

Figure 1 is an analysis done by the JPO of the cross-border flow of patent applications among Japan, Europe and the United States last year. It does not include patent applications filed with individual member countries of the European Patent Convention. During 2004, a total of 210,000 patent applications crossed the borders separating the three "Trilateral" areas.



A total of more than 940,000 patent applications were filed last year in the JPO, the EPO and the USPTO. Each of those offices faces major challenges to keep the time it takes to examine an application within acceptable limits.

An initial effort to achieve deep harmonization of patent laws within the WIPO was cut short in 1997 when then-Secretary of Commerce, the Honorable Ronald H. Brown, informed the WIPO that while "other international negotiations continue, [the United States] will maintain our first-to-invent system, while keeping open the option of full patent harmonization in the future." The result was agreement on The Patent Law Treaty—a useful *procedural* agreement that falls short of substantive harmonization. Recent efforts of the WIPO Standing Committee on Patent Law, working on a Substantive Patent Law Treaty ("SPLT"), have not fared much better, largely as the result of a few developing countries trying to use that forum to roll back the progress made in the landmark TRIPS accord.

Currently, the hopes for substantive patent harmonization hinge on the efforts of a number of countries that signed a Statement of Intent at an Exploratory Meeting of Interested Parties Concerning the Future of Substantive Patent Law Harmonization held February 3-4, 2005, in Alexandria, Virginia. That meeting was followed by a meeting in April at the EPO, to be followed, in turn, by meetings at the JPO and the USPTO.

I have attached to my statement an article that I coauthored in 1998 entitled World Patent System Circa 20XX A.D.<sup>1</sup> In that article, my coauthor, Ms. Vivian Kuo, and I (1) trace the successful efforts of the past two or three decades to move from purely national patent systems to multinational regional systems, (2) outline a vision of what an efficient and effective World Patent System might look like, (3) identify the issues and challenges

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<sup>1</sup> *World Patent System: Circa 20XX A.D.*, 38 IDEA 529 (Franklin Pierce Law Center 1998), reprinted in 80 Journal of the Patent & Trademark Office Society 523 (1998) and in 31 Intellectual Property Law Review 3 (West Group 1999)

to be resolved on the way to a global or World Patent System, and (4) describe the steps now being taken in Japan, Europe and the United States to move beyond the current national and regional patent systems.

Although there are many aspects to deep patent law harmonization, none is more important, in my opinion, than the United States moving to a first-inventor-to-file system of priority. At the end of 1997, there were two nations that used the so-called first-to-invent system: the United States and the Philippines. Effective January 1, 1998, under its Republic Act No. 8293, the Philippines adopted a first-to-file system, leaving the United States alone in the world in adhering to a first-to-invent system.

Patent examiners worldwide examine an inventor's claims — his/her definition of the invention — against what patent professionals call "prior art" — i.e., earlier work of others. As long as the United States alone in the world adheres to a first-to-invent system of priority, there can be no realistic expectation that a universally agreed upon definition of prior art can be achieved. Thus, from an international harmonization point of view, nothing in H.R. 2795 is as important as Section 3 of the bill that would establish a first-inventor-to-file priority system.<sup>2</sup> As long as the United States adheres to a first-to-invent system of priority, international discussions of deep patent harmonization will remain hypothetical or theoretical.

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<sup>2</sup> As early as 1965, a major Presidential Commission studying the United States patent system strongly recommended that the United States adopt the otherwise universal first-to-file system. "To Promote the Progress of ... Useful Arts in an Age of Exploding Technology," Report of the President's Commission on the Patent System, Washington, D.C. (1966). This is not a partisan matter. The 1966 Commission Report was to President Johnson. In August 1992, the Advisory Commission on Patent Law Reform reached virtually identical conclusions in its report to the Secretary of Commerce in the Bush Administration. The Advisory Commission on Patent Law Reform, Report to the Secretary of Commerce (Aug. 1992).

An argument is sometimes heard that adopting the universal first-inventor-to-file rule would somehow disadvantage independent inventors and small businesses — two classes of extremely important and productive users of the U.S. patent system. Twenty-two years of experience indicates that the United States first-to-invent system of priority has provided no advantage to small entities. Actually, the opposite is true: more small entities were disadvantaged by the first-to-invent rule than were advantaged.

To provide adequate funding for the USPTO, I recommended in 1981 to the Secretary of Commerce and he in turn recommended to the President through the Office of Management and Budget (1) that the user fees for patents and trademarks be substantially increased and (2) that the USPTO be able to use the increased fees to fund its operations instead of those fees being deposited in the miscellaneous receipts of the U.S. Treasury. That recommendation was sent to the Congress in connection with the Administration's FY 1983 Budget, and, acting on a bill introduced by Senator Hatch, Congress enacted it in P.L. 97-247.

A key part of the statutory patent fee structure enacted at that time was that it established a two-tier fee system that we had recommended. That two-tier fee system allows qualifying independent inventors, small businesses and nonprofit institutions — referred to collectively as "small entities" — to pay half of the standard patent filing fees, patent issue fees and patent maintenance fees.<sup>3</sup>

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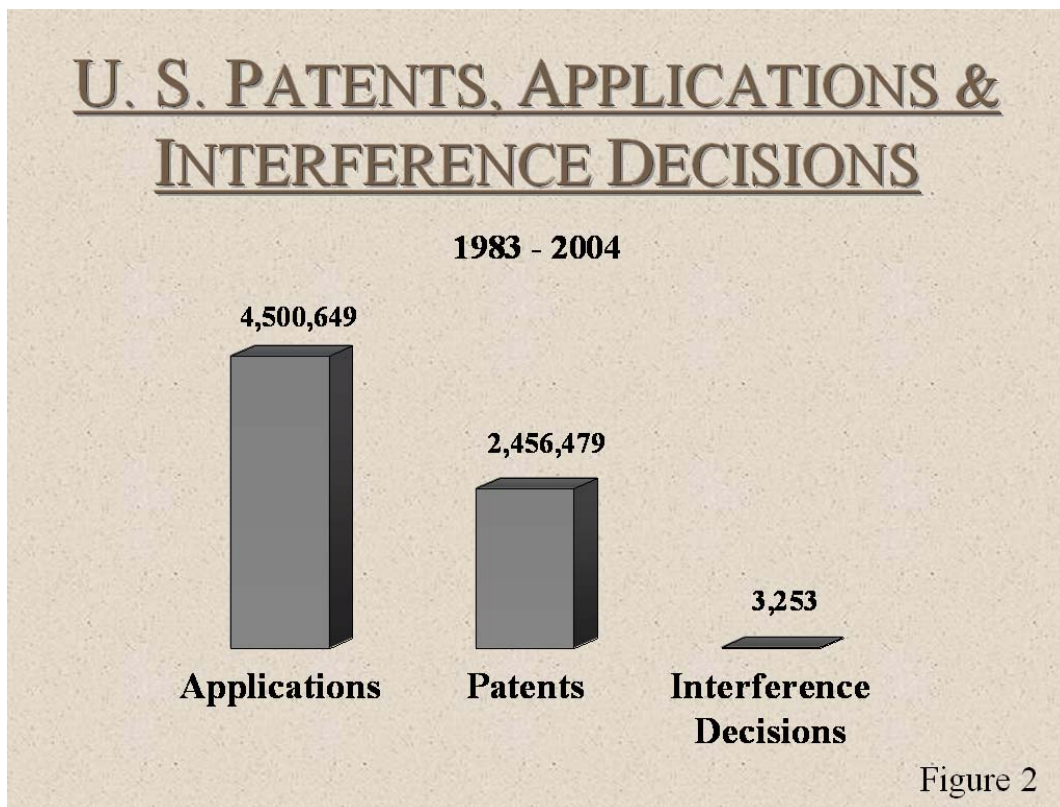
<sup>3</sup> 35 U.S.C. § 41, 37 C.F.R. §§ 1.16 et seq.

Thus, since fiscal year 1983, the USPTO has been able to keep track statistically of all patent applications that it receives and of all patents that it grants by four categories: (1) independent inventors, (2) small businesses, (3) nonprofit institutions and (4) large entities. Thus, we have 22 years of actual data on what happened to small entities when they are forced to prove that they were the first-to-invent in an arcane and burdensome complex of substantive and procedural rules and regulations governing what are called "interferences" in the USPTO.

First, let me define terms. In this statement . . .

- ◆ I will say that a small entity was *advantaged* by the first-to-invent system if the small entity was the *junior party* in an interference — i.e., the second person to file a patent application on the invention — and received a *favorable* decision.
- ◆ I will say that a small entity was *disadvantaged* by the first-to-invent system if the small entity was the *senior party* in an interference — i.e., the first person to file a patent application on the invention — and received an *adverse* decision.

From 1983 through 2004, the USPTO received 4,500,649 utility, plant and reissue applications and granted 2,456,479 such patents. During that same period there were a total of 3,253 two-party decisions in interference cases, a tiny fraction of the applications filed and patents granted. (Figure 2.) Using the number of applications filed as the denominator, the number of two-party decisions amounted to less than one in 1,000 (0.1%) of the applications filed. Using the number of patents granted during the 22-year period as the denominator, the percentage of two-party decisions increases but is still less than two in 1,000 (0.2%) of the patents granted.



Based upon an analysis of the small entity data that now exists, the USPTO reports that the number of small entities that were advantaged by the first-to-invent system during the 22 years — 1983–2004 — was 286, whereas the number of small entities



disadvantaged was slightly higher, namely, 289. (Figure 3.)

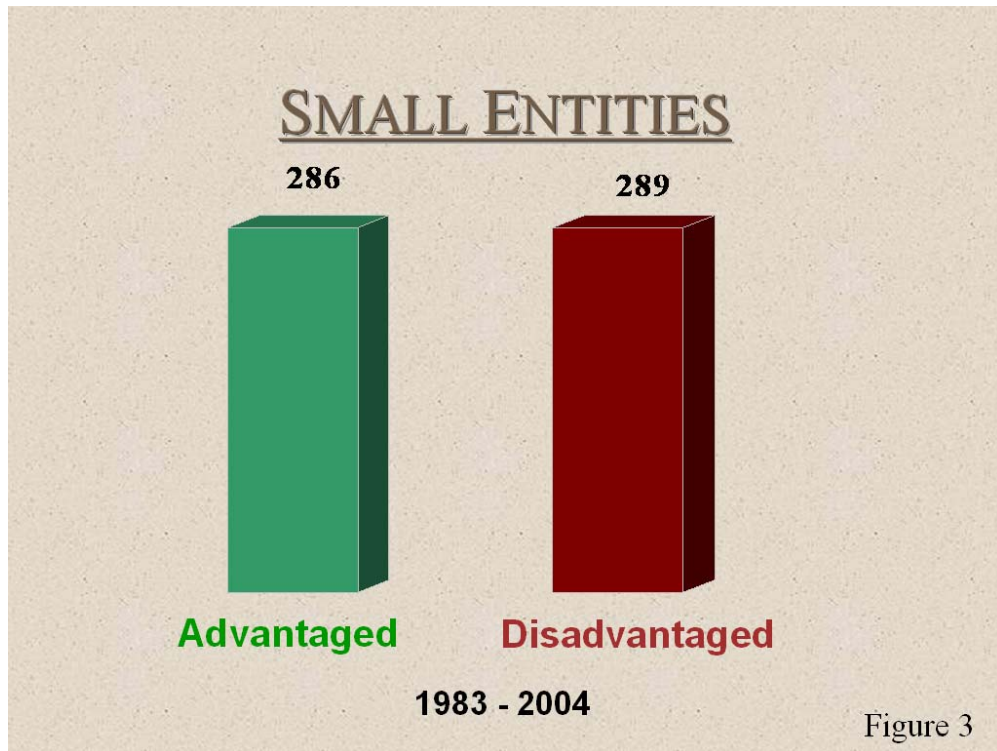


Figure 3

◆ 50 non-profit institutions were advantaged and 30 disadvantaged. (Figure 4.)

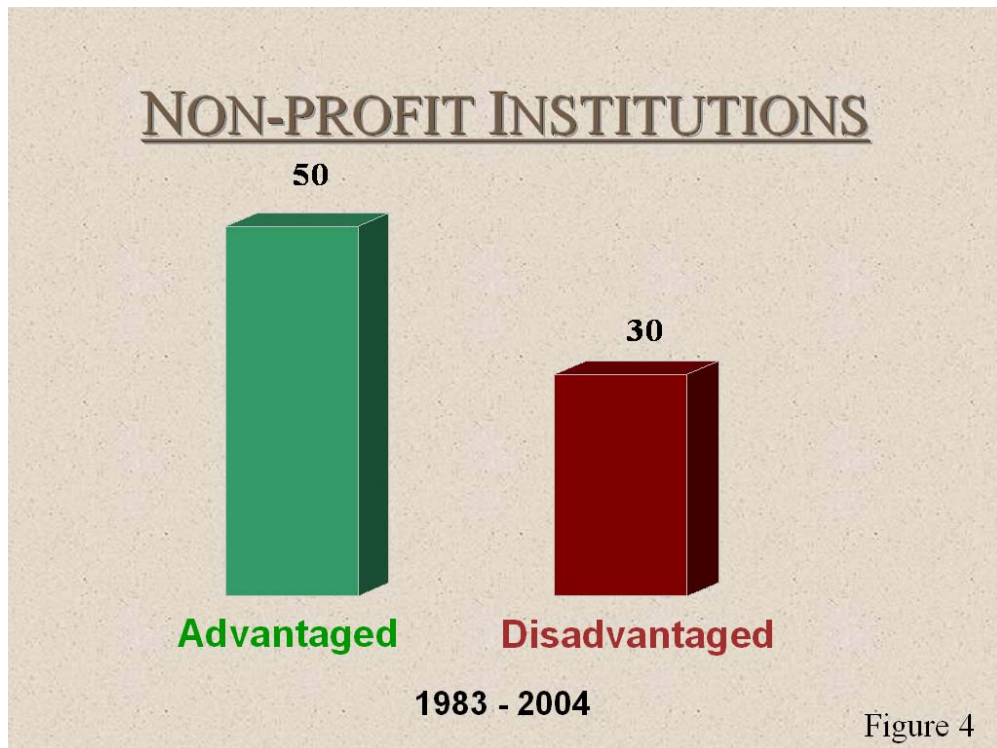
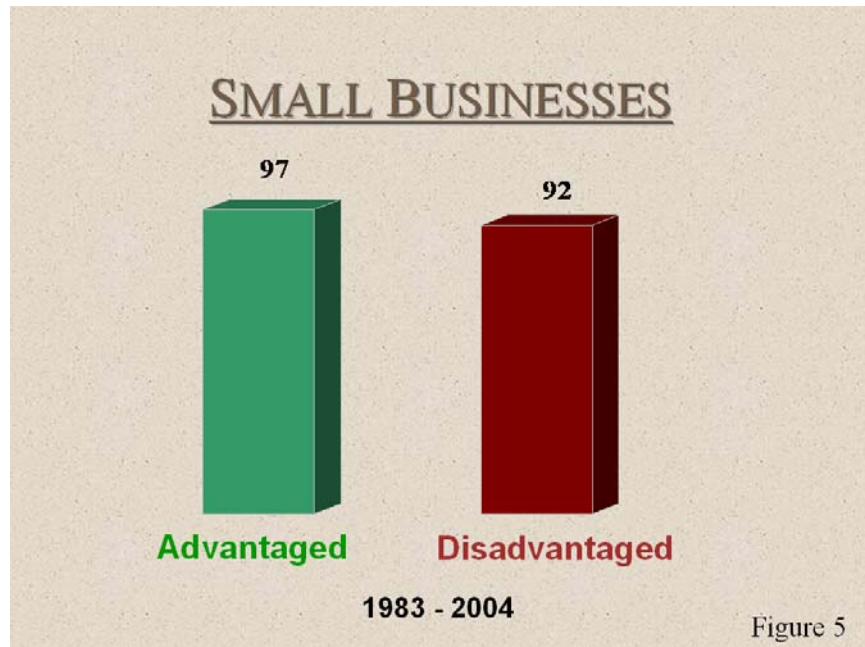


Figure 4

- ◆ 97 Small Businesses were advantaged and 92 disadvantaged. (Figure 5.)



- ◆ 139 independent inventors were advantaged and 167 were disadvantaged. (Figure 6.)

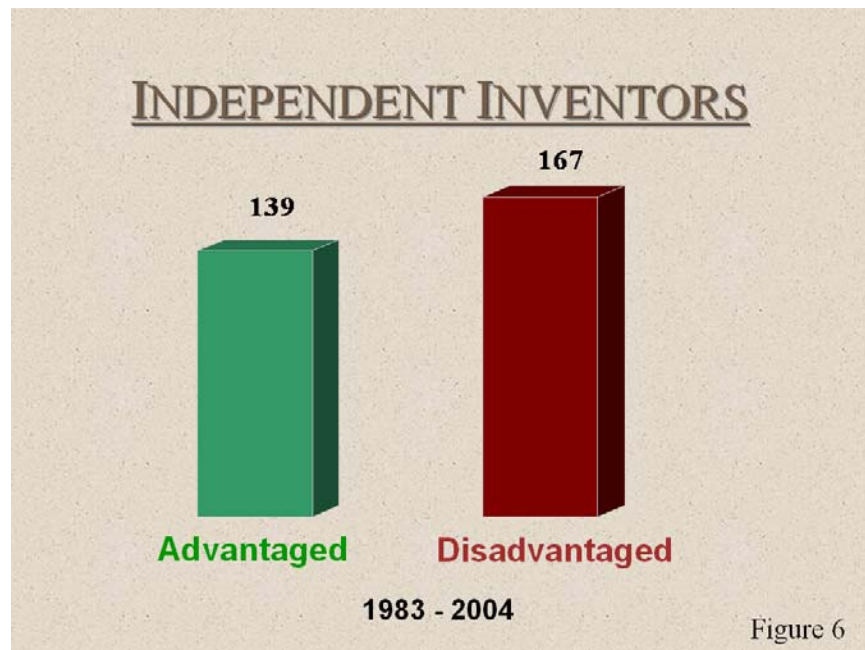
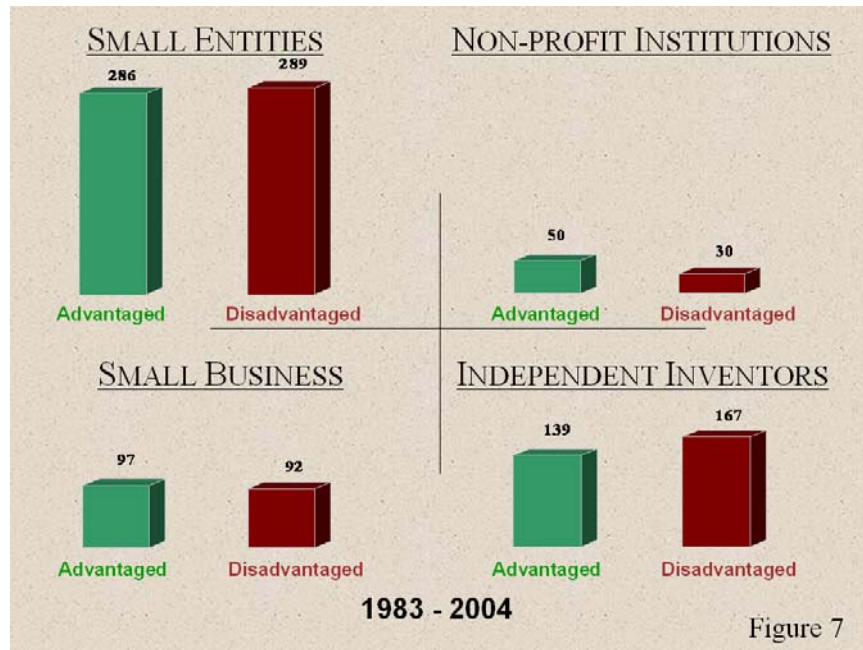


Figure 7 shows these data on the same scale.



Those of us who believe that adopting the first-inventor-to-file system of priority in the United States would actually favor small entities point out that the current system of forcing a small entity into an interference proceeding with a large and determined company that filed a patent application *after* the small entity could cost the small entity hundreds of thousands of dollars, even if it ultimately received a favorable decision. More importantly, small entities by their very nature can move more quickly than larger bureaucracies. And here is where the United States *provisional application* comes into play. By filing a complete technical disclosure of the invention, a small entity can readily secure priority rights in a first-inventor-to-file system without a major expenditure of resources. This then gives the small entity a year in which to file a professionally prepared patent application.

Moreover, by retaining an "inventor's rights contest" in H.R. 2795 (in 35 U.S.C. § 135(a)), the bill is true to the Constitution since it would reward exclusive rights only to true inventors for their discoveries.

The data provided by the USPTO confirm empirically that the current first-to-invent system of priority provides no advantage to small entities. Figure 7 speaks for itself. Historically, virtually the same number of small entities were advantaged by the first-to-invent system (286) as were disadvantaged (289). And with respect to independent inventors — among the most vocal of first-to-invent adherents — somewhat more were disadvantaged (167) than were advantaged (139) by the first-to-invent system.

There are many good reasons why the United States should join the rest of the world in adopting a first-inventor-to-file system — reasons well beyond the scope of this statement. I hope that the data presented in this statement — based on 22 years of actual experience — will add constructively to the debate on § 3 of H.R. 2795.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or the other Members of the Subcommittee may have.