S.515 “Manager’s Amendment” to Create American Jobs: The Commerce Department, Shooting Blanks[*]

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An at first blush impressive and detailed Commerce Department White Paper creates a premise that (a) *prompt* patent grants are necessary to encourage American innovation and create American jobs; (b) the backlog of patent applications is antithetical to needed prompt patent grants; and (c) a massive infusion of money through fee setting delegated to the PTO in the Senate “Manager’s Amendment” to S.515 will permit the hiring of thousands of examiners to overcome the long line of patent applications – 750,000 in all – that are sitting in figurative shopping carts awaiting examination, the “backlog”.

The Commerce Department White Paper seeks to establish this premise by relying upon a Boston Study which, contrary to the premise of the Commerce Department White Paper actually concludes that patents are a net *negative* to most industries (a point never mentioned). To be sure, the Boston Study *does* support the view that in limited areas – pharmaceuticals – patents are important.) For pharmaceuticals, however, a *prompt* grant is both unnecessary and *undesired:* The GlaxoSmithKline fight against the “Tafas Rules” shows the fervent desire in that technology for *prolonged* pendency as a virtue.

To be sure, startups and several select areas *do* require prompt patent grants. But, limited prompt grants can be more than readily accomplished through innovative programs of the Kappos Administration such as its highly touted “green tech” initiative that clearly bypasses the backlog for areas where job creation may be important: But, nothing is mentioned in the Commerce Department White Paper about “green tech” or any of several other innovative solutions proposed and now in the process of implementation by the Kappos Administration.

At the core of the Commerce Department White Paper is an implicit demand for much higher patent fees through fee-setting authority which would lead to “additional hiring of examiners”. Never mentioned is the fact that the previous Administration had a focus on the successful hiring of *several thousand* patent examiners, which was a miserable failure as the net backlog *increased.*

(a) *Prompt* Patent Grants

The central premise of the Commerce Department White Paper is that American jobs will be created if only there could be a *prompt* grant of patents vis-a-vis the current multi-year backlog.

Citing to a Boston Study, the Commerce White Paper correctly points out that exclusive patent rights are imperative for patents in the area of biotechnology, pharmaceuticals and other chemicals. Indeed, the Boston Study cites statistics establishing that there is a very positive economic benefit through the patent system in this area. (If anything, the Boston Study underestimates the economic value of patents in the area of pharmaceuticals and biotechnology where a patent on a single drug may be basis for *billions* of dollars in revenue *per year.*).

Yet, what the Commerce Department White Paper does *not* say is that in the pharmaceutical industry *does not want prompt patent grants.* To the contrary, GlaxoSmithKline Vice-President Sherry Knowles was an iconic spokesperson *against* prompt patent grants in her industry where she spearheaded the successful fight against the so-called "Tafas Rules" whereby the previous Administration had sought to curtail the right to open-ended filing of continuing applications and requests for continued examination. Her counsel's *en banc* oral argument at the Federal Circuit stressed the imperative *need* for a prolonged pendency for pharmaceutical patents.

Even more importantly, for the vast majority of patent applications that *are* filed in the areas of electronics, software, manufacturing – indeed all industries *other* than the biotech, pharma and chemicals – the Boston Study makes the central point that issued patents represent an *economic negative:* Instead of spurring new jobs, the Boston Study provides empirical evidence to support a conclusion that the net cost of patent litigation defense and patent infringement damages awards for all patents (beyond biotech, pharma and chemical) far *exceeds* the positive economic value of such patents. Thus, according to the Boston Study, the Microsofts, GE's, Micron's, IBM's and other major companies that are the leading patent filers are able to innovate and grow *despite* the patent system, and not because of the patent system.

(b) **"Green Tech", Accelerated Examination *versus* The Backlog**

To be sure, there *is* a need for *very* prompt patenting for startups, "green tech" and other emerging high technologies. Yet, the Kappos Administration has proven that there is no need for pendency reduction to meet the needs in these areas. Specifically, there is *already* in place the option of accelerated examination, as well as a much publicized "green tech" initiative where early examination is given to applicants who ask for priority status. But, this program that was commenced in late 2009 has received less than 300 requests in the first several months of existence – or a rate of about one (1) percent of all patent filings per year. Giving accelerated status to such a small number of applications hardly requires an overall backlog reduction. Assume that the PTO would accelerate 20,000 applications per year – instead of 1,000 – this would still be less than five (5) percent of the annual filings per year.

(c) Massive Funding for Thousands of New Examiners

The Commerce Department White Paper states that the increase in funding that is needed is, beyond IT infrastructure expenses, for the principal purpose of hiring examiners: Beyond the issue of "IT infrastructure upgrades", the Commerce Department White Paper focuses upon hiring more examiners: "In order to reduce the backlog, the USPTO will have to incur significant additional expenses, most notably expenditures on … additional hiring of examiners."

But, hiring even *thousands* of Examiners is not at all a solution but instead is merely a replication of the past failures of the previous Administration where the central focus on backlog was *precisely* to hire – literally – *several thousand* new Examiners. The Office *was* successful in hiring literally *several thousand* new examiners. But, there was considerable churning and the *resignation* of *several thousand* examiners over the same time period. Instead of *cutting* the backlog, the backlog *increased* dramatically in the midst of this hiring mania.

The Positive Solutions of the Kappos Administration

The Commerce Department White Paper says *nothing* about many important initiatives of the Kappos Administration.

The Under Secretary of Commerce for Intellectual Property has come forward with innovative solutions that *will* permit the prompt granting of patents and *will* be able to tackle the backlog in ways far superior to simply creating thousands of new examiner positions:

Accelerated examination.

Deferred examination.

Patent worksharing.

"IP 5" international cooperation.

The Patent Cooperation Treaty.

Patent Prosecution Highway.

Each of these topics holds great promise for a more efficient examination system and can provide a far more productive and more cost-efficient way to achieve better quality patents and a reduction of the backlog as well.

Certainly, these solutions should be attempted before throwing billions of dollars away on the failed program of simply hiring thousands of new examiners which was tried in the previous Administration.

What does the Patent White Paper say about these innovative solutions that have been considered by the Under Secretary? Nothing. Absolutely Nothing.

Notes

* This analysis represents the personal opinion of the writer, and does not necessarily reflect the views of any colleague, organization or client thereof.

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Sources

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"Green Tech" – Less than 300 Applicants, *see USPTO Program Allowing for Expedited Review of Green Tech Patent Applications May Be Extended*, http://www.goodwinprocter.com/Publications/Newsletters/Clean-Tech-Advisory/2010/USPTO-Program-Allowing-for-Expedited-Review-of-Green-Tech-Patent-Applications-May-Be-Extended.aspx (April 20, 2010).