FRANKLIN PIERCE LAW CENTER'S FIFTH BIENNIAL PATENT SYSTEM MAJOR PROBLEMS CONFERENCE

I. INTRODUCTION

A. *Conference Background*

On November 11, 1995, Franklin Pierce Law Center (FPLC), in cooperation with the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship and the PTC Research Foundation, both of which are located at FPLC, held its fifth conference on the major problems of the patent system. This biennial series of Patent System Major Problems Conferences was started in 1987 by former FPLC professor Homer O. Blair.

The discussions in the first and inaugural conference focused on such diverse topics as New Forms of Patents, Litigation Cost Reduction Measures, and First-to-File versus First-to-Invent Systems. 28 IDEA 61 (1987) and 28 IDEA 117 (1987).

The 1989 conference dealt primarily with Patent Trial Simplification and Dispute Resolution. 30 IDEA 107 (1989).

The 1991 conference covered such patent law harmonization subjects as Secret Prior Art, Prior User Rights, 35 U.S.C. § 104, and Publication of Pending Applications. 32 IDEA 7 (1991).

The 1993 conference featured such subjects as Abolition of Jury Trials in Patent Cases, a New Specialized Patent Court in England, Prior User Rights, and the U.S. Patent and Trademark Office as an Independent Government Corporation. 34 IDEA 67 (1994).

B. *1995 Conference Design*

The 1995 conference focused on three topics: 1) Patent Costs; 2) Future of the U.S. Patent and Trademark Office; and 3) Prior User Rights. Towards the end of the conference, each attendee was given an opportunity to briefly identify additional major problems.

The purpose of the 1995 conference was to elicit opinions of people who are knowledgeable about the patent system about what could be done to solve or alleviate what some see as the patent system's major problems.

Hence, the conference attendees included invited guests from the private and corporate patent bars, universities, the ranks of private inventors and entrepreneurs, as well as faculty from FPLC.

The format of the conference was in-depth discussions and exchanges among the attendees, without prepared speeches. However, prefatory comments to each of the three subjects on the agenda were made by Bud Berrier, Herb Wamsley, and Chris Konkol, respectively. For the purpose of introducing these subjects, they used the following background materials:

1. Erwin F. Berrier, Jr., Global Patent Costs Must Be Reduced, Address at the International Patent Club in New York (Sept. 12, 1995). An article and accompanying charts on this topic will be published in Vol. 36, No. 4 of *IDEA*.

2. *Hearing on H.R. 1659 and Related Bills, Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 104th Cong., 1st Sess. (1995) (testimony of Herbert C. Wamsley).

3. H.R. 1659, 104th Cong., 1st Sess. (1995) (Patent and Trademark Office Corporation Act of 1995).

4. Chris P. Konkol, *Prior-Invention Rights: The Excluded Middle*, 77 J. PAT & TRADEMARK OFF. SOC'Y 666 (1995).

The conference was chaired by Robert B. Benson, Chairman of FPLC and its Advisory Committee on Intellectual Property (ACIP), as well as the former President of Bancroft Corporation, Chief Patent

Counsel of Allis Chalmers, President of the American Intellectual Property Association, and Chairman of the IP Law Section of the American Bar Association.

C. *Speaker Introductions*

MR. BENSON: Many of you already know each other. You all have a place card in front of you saying who you are, but to get started and for those who don't know everybody, I'd like to go around the room for introductions. Just make a statement of who you are and where you are from.

MR. VILES: I'm Bob Viles, the President of Franklin Pierce Law Center.

MR. KEEFAUVER: I'm Bill Keefauver from New Jersey.

MR. WELCH: I'm Larry Welch from Kalamazoo, Michigan. I now work for a company called Pharmacia & Upjohn, Inc.

MR. KLITZMAN: I'm Maury Klitzman from Bethesda, and I'm retired from IBM.

MR. MYRICK: I'm Ron Myrick from Boston.

MR. C. BENSON: I'm Chris Benson from Houston and a shareholder with Arnold, White & Durkee.

MR. SMITH: Roger Smith from New York. I'm with Morgan & Finnegan and retired from IBM.

MR. BALMER: Norm Balmer, Danbury, Connecticut, Union Carbide.

MR. GOLDRIAN: Hans Goldrian with the law firm of Bardehle in Munich.

MR. KONKOL: Chris Konkol. I'm from Wilmington, Delaware, and I work at E. I. du Pont.

MR. BREMER: Howard Bremer, formerly patent counsel with Wisconsin Alumni Research Foundation, Madison.

MR. COLEMAN: Ed Coleman, adjunct faculty at Franklin Pierce Law Center and retired from GTE Sylvania Lighting as General Counsel

Intellectual Property.

MR. ARMITAGE: Bob Armitage. I'm with the Washington office of Vinson & Elkins. I was formerly patent counsel at the Upjohn Company.

MR. GRISWOLD: Gary Griswold. I'm with 3M in St. Paul, Minnesota.

MR. WITTE: Dick Witte, Cincinnati, Ohio, Morgan & Finnegan, and retired from Procter & Gamble.

MR. CROOKS: I'm Bob Crooks, in private practice in Durham, New Hampshire.

MR. SHAW: Bob Shaw, Franklin Pierce Law Center.

MS. LINCK: Nancy Linck, Solicitor, Patent and Trademark Office.

MR. FIELD: Tom Field, Franklin Pierce Law Center.

MR. MACKEY: Len Mackey, Sarasota, Florida, formerly with ITT Corporation.

MR. RISSMILLER: I'm Kent Rissmiller, a graduate of Franklin Pierce Law Center and a professor of political science at Worcester Polytechnic Institute in Massachusetts.

MR. GOLDSTEIN: I'm Steve Goldstein. I'm Chairman of the Intellectual Property Department at the law firm of Frost & Jacobs in Cincinnati and a professor of law at the University of Cincinnati.

MR. LOWIN: I'm Dave Lowin, also a graduate of Franklin Pierce Law Center. I'm with Connective Therapeutics in Palo Alto, California. I am a lecturer on patent law at Stanford and UC Berkeley's Boalt Hall.

MR. GHOLZ: Chico Gholz, Oblon, Spivak, in Arlington, Virginia.

MR. BERRIER: Bud Berrier, Fairfield, Connecticut, GE.

MR. KLINE: Bob Kline, with the Washington office of Fitzpatrick, Cella, and retired from E. I. du Pont.

MR. HENNESSEY: Bill Hennessey, Franklin Pierce Law Center.

MR. WAMSLEY: I'm Herb Wamsley, Executive Director of

Intellectual Property Owners Association in Washington.

MR. RINES: Bob Rines, the Executive Board of Franklin Pierce Law Center.

MR. BARDEHLE: Heinz Bardehle, patent attorney in Munich, but born in Berlin.

MR. JORDA: Karl Jorda, faculty of Franklin Pierce Law Center, formerly patent counsel of Ciba-Geigy Corporation.

D. *Opening Welcome and Announcements*

MR. BENSON: Okay, to get things rolling, the first thing we have is some remarks from Bob Viles, who is the President and Dean of Franklin Pierce Law Center.

MR. VILES: Welcome to Franklin Pierce Law Center. This is the fifth event in a series this week, so some of you have been welcomed and may be welcomed out by now.

At the first event, which was the quarterly meeting of the Law Center Governing Board, we elected Bob Benson Chairman of Franklin Pierce Law Center, succeeding Bob Rines. A note of congratulations to both Bobs is in order. Those of you who are interested in legal education should note that we have gone from one patent lawyer to another in leading the Law Center and keeping a balance, perhaps, with me as a bankruptcy lawyer.

The second event was yesterday afternoon's Advisory Committee on Intellectual Property's semiannual meeting, and last evening we honored Karl Jorda for his service to the Law Center. We managed to keep the last as a surprise, at least we think we did. It was a great source of satisfaction for me personally to have this opportunity to honor Karl for all of the help and generosity he has extended to the school.

This conference is the culminating event for the series, and one for which we appreciate very much your coming to Concord, whether it's God's country or some lesser state. We know that you've given up a fair amount of time to get here and look forward to hearing what you have to say today.

MR. JORDA: Before we go on, and as a matter of personal privilege, I'd like to make an announcement. It's very, very good news that I would like to share with you. Heinz Bardehle, earlier this week on Monday, received from the German Government in Bonn the highest award that a German citizen can receive from the government, namely the "Bundesverdienst-Kreuz Erster Klasse" (the "Federal Cross of Merit, First Class"), for his many, many contributions over many, many years to the German and the European intellectual property systems, and we want to recognize that.

MR. BENSON: Congratulations! (Applause). A few running rules for this conference. Those who have been here before know them. Each subject will be introduced by a speaker, and then we open discussion up to the floor. Each person will be given an opportunity to say whatever they want to say, as long as it's said in three minutes.

II. PATENT COSTS

MR. BERRIER: To introduce the topic "Patent Costs," I would like to explain my understanding of the patent cost problem. You all have a packet of charts in front of you to help in that process. The first two charts show the total cradle-to-grave patent cost for patents covering a single invention in 52 countries. These costs were compiled by a member of IPO. The costs assume a chemical case, no drawings, 20 pages of specification, 10 claims, except in Japan, where 5 claims and a pre-1988 filing date are assumed. The cost build up is shown for each country in 5-year increments.

These charts point out several alarming issues. The first issue is that the total cost to protect a single invention is $472,000. So, if the company you represent, or your client, files a hundred patent applications a year, this would lead to an annual rate of $47 million for patent portfolio costs, which is an outrageous number.

The second alarming issue is that three of the top four countries, and five of the top eleven countries, are newcomers who just recently established patent systems. Ukraine, Thailand, Russia, Hungary, and Indonesia alone account for $86,000 or 18 percent of the total. If this is what we have to look forward to as countries modify their laws and

implement patent regimes to comply with TRIPs, we're in big trouble. As countries modify their laws or put into place patent systems to comply with TRIPs, we can expect them to look to the U.S. Patent Office, EPO, and the Japanese Patent Office for examples of the best practices to adopt.

So, what I'd like to do now is focus on those three patent offices to see what example is being set in the area of costs. Now, this is a different set of data. This data was compiled using a slightly different set of assumptions. We assumed September 1994 exchange rates, a 20-page application, two sheets of drawings, 10 claims, except in Japan, where we've also shown 2 claims and assume a post-1987 filing date. We also assume two office actions and two amendments. In the U.S. we include the costs of preparing the original patent application and two amendments, but to compensate, we don't include any translation fees. You can see that with those assumptions the total cost in Europe, in the EPO, is $134,000 compared to $30,000 in Japan for ten claims and $22,000 for two claims, and $14,000 in the U.S.

As we look at these numbers, we should keep in mind that the market or economic unit that is defined by the EPO is roughly about the same size as the U.S. in terms of Gross Domestic Product (GDP) and population, and it's about three times the size of Japan. Going back to total patent costs, we see that Europe (EPO) is from four to nine times more expensive than the U.S. for patents covering essentially the same size market.

Now, we'll break these total costs down into their various elements. Official fees are from filing through grant. The $10,800 cost for the EPO is more than five times the amount for Japan and the U.S. Translation costs are $15,000 in Europe versus $3,000 for Japan. Agent fees for Japan and the U.S. are about equal, and the EPO is about twice as expensive at $12,200. Then we get to maintenance fees. Here is the real killer—the taxes that we all have to pay to keep our patents alive. You can see in the EPO they're over $95,000 for all the countries. The total for the original ten EPO countries is $74,000. The total for France, Germany, Italy, the Netherlands, and the U.K. is $48,000. This compares to $19,500 in Japan for ten claims and $5,790 in the U.S.

If we look at costs on a per capita basis, the patent costs per million population in Europe is six and a half times higher than the U.S.

and Japan is three to four times higher. Patent costs per capita based on GDP in the EPO is eight times higher than the U.S., and Japan is four to five times higher than the U.S.

I'm very concerned that while we've made great progress with the TRIPs agreement, that as a practical matter, the world's patent offices are going to take away through pricing what they are required to provide to us by treaty. I think this is a serious problem for which we must find a solution.

MR. BENSON: Thanks, Bud. The floor is now open. If you haven't thought of your questions yet, I'll ask a question. As I understand, in the last fiscal year, the United States Patent Office made a profit of $55 million which was turned over to the general fund. What kinds of profits are these patent offices making that you are referring to here?

MR. BERRIER: I have no idea what profits they're making. You can run a lean organization, charge a high price, and make a large profit. You can run a terribly inefficient operation, pay large salaries, throw money around, charge high prices, and lose money.

MR. GHOLZ: There is a potential solution to this, I think. One thing that we've been talking about and that some members of the bar have been pushing very hard is what Hal Wegner calls work-sharing. There are various names for it, but the basic idea is that one would be able to file a patent application in any one of the three major patent offices. You then designate what countries you want that are served by those three major offices, so that in essence you could file in Europe and designate the U.S. and Japan. You could file in the U.S. and designate European countries, Japan, etc.

There are many arguments for efficiency that suggest that some day we will in fact go there, probably in the professional lifetimes of quite a few of us. If we do that and if you don't have to file in your home country, if the Japanese could file in the U.S. and the Europeans could file in the U.S., we'd eat their lunch. Everybody would file in the U.S. Point one: competitively, it's cheapest to prosecute in the U.S. Point two: which we sometime shy away from saying, but which is nonetheless true, is that it is overwhelmingly easier to get a patent in the United States than it is in Europe or Japan.

Hence, if you're a Japanese company or you're a European company thinking about getting protection for your home market, also elsewhere, it would make sense to file in the United States in order to save money on prosecution costs. This isn't going to help maintenance fees, I understand, but on prosecution costs and also on ease of getting a patent, we could run those other folks out of business.

MR. RINES: I would like to speak from my experience in a small patent law firm and representing relatively small high-technology companies in America and in the New England area particularly. Many of these companies have opted out for filing abroad and have enough to do to try to build and operate businesses in the United States. This picture that has been painted here for us makes it impossible.

I'd like to make a comment, first, that I have not found it easier in the technologies that I deal with to get a patent in the United States than it is in Europe and Japan. I don't think that's true at all, at least in my areas, anyhow. But that aside, I have to evolve a strategy for my clients to live now, not to sit here and debate what's going to happen and what's going to change in treaties and so forth.

So, I have a philosophy that I would like to share with you. In cases where we feel it would be economically essential for the other European countries to have to trade in the United Kingdom, we only file in the U.K. We don't use the EPO. If we have an invention in some European country where there would be a manufacturer, or wherever else it may be, it is likely that they can't exclude the U.K. as a market, in a practical matter, from their distribution. I feel that one patent is as valuable as filing in all of these countries. I may be wrong, but that's all my clients can afford. I wanted to share that strategy with you.

MR. BARDEHLE: The problem, I think, is the translation costs, not so much the other costs. We also made a survey about the costs for prosecution and found that the highest costs for prosecution are in Japan, followed by the United States and then Europe; pure prosecution costs. Now, what makes this difficult is the translation and the very high search and examination fee for the EPO. This problem is recognized I report to you. It would go beyond my time to speak in details, but the intention is proposed in Europe to the EPO, and for the EPO to reduce costs. The EPO does not want to lose clients. Many foreign applicants no longer

choose the European route, but go to the national route as you have already said. Many companies do that. For instance, in the motor car industry, it is not necessary to cover all of Europe if you have one important patent in one country. Due to the export of the motor cars, it is impossible for the motor car manufacturer to have different lines of production for different countries. It's all the same, so one protection is normally sufficient. One can do that, but that doesn't solve the problem of costs.

The real problem is fees, and in many instances we need protection throughout Europe requiring translations. The proposal now is to shift the translation costs to the end of the procedure. When the applicant knows what he may get, when he has more or less the patent in his hands, then it is psychologically easier for him to pay the money for the translations. At the beginning of the EPO system, some countries renounced the translation. This was the case for the United Kingdom and Germany for a long time. Then, they were not satisfied with the existing system with only the claims in three languages. Later, they introduced the full translation, unfortunately. It may be that some countries will drop that requirement when they see these complaints. So, this is the only answer which I can give to you.

I would suggest that you create pressure and mention your concerns to the EPO because this is decided by the Administrative Council organized by the member states, in which the member states are represented. They are now considering the reduction of costs in that way, shifting the translation costs to the end.

This is a solution, but here I would like to make one proposal. What we are doing with languages is not what sometimes is considered discriminatory against foreigners. Unfortunately, we live in an area where we have a great number of languages. When the Turks, Czechs, Hungarians, and Fins, all with very complex languages that are not understood outside their own country, join our patent organization, it will be impossible to manage, even in the commission in Brussels, all of these languages. A solution must be available. In my view, the only solution, but this is of course a vision for the future, is to use what is done already in practice; use English as one language, at least for the beginning and for a long time. Then maybe later, in any case for litigation, the translation may be necessary. But how often do we have litigation? In ten percent

of the cases possibly. So, there are solutions on the horizon. May I now make a proposal, if you permit me, and simplify the matter for you in a certain way. Could the United States, let me say it as a proposal, give up *In re Hilmer*? That's why I'm here, so permit me to speak openly and frankly to you as a group of friends. Consider giving up *Hilmer* as a bargain with translations costs. Isn't that what we are trying to do in the WIPO harmonization? Are you prepared in the United States to do away with something which we consider a discrimination? You may include this in proposals on how we can reduce these enormous costs in the EPO.

MR. KEEFAUVER: Without undercutting the main point, which I think I see and generally agree with, and having only a few minutes to look at these numbers, I wonder if they're not showing a worst case and making the problem seem worse than it really is. As I understand, these figures are all cradle-to-grave and assume that every application you file will mature into a patent that will be nationally prosecuted in each one of these countries and will be maintained until its term expires. In the real world, that just doesn't happen. So, I think it would be interesting if various companies' attorneys could look at a typical portfolio with which they are familiar and try to estimate what percentage of their patents they hold to full term. Certainly when I was at AT&T, when we were looking at this whole issue of maintenance fees, we guessed that a very small percentage, maybe ten percent, would be maintained full term. Probably a third of the patents would only be maintained through ten years, and many would be dropped. So, I think because maintenance fees play such a big part in this compilation, that to be realistic and objective, we have to take out some of the maintenance fees. I don't think it destroys the shape of the curve. I think it brings it over to a slightly less hostile territory. Am I correct that this is a worst case scenario by making the assumption that everything is maintained forever?

MR. BERRIER: The maintenance fees are for the life of the patent. Translation costs occur when you go through the national phase. The filing fees and agent prosecution fees come earlier, so it depends on which chart or exactly what cost elements you're looking at. But, the total cost roll-up includes maintenance fees which are paid over the life of the patent.

MR. KLITZMAN: My comments are somewhat more in line with

Bill Keefauver's. If I remember correctly, one of the reasons you have high fees in smaller countries is to force patent owners to make a decision as to whether they want to maintain that patent because the data bases are getting bigger and bigger by leaps and bounds. It is a tremendous job to try and keep up with all the patented art that's out there. I know that years ago RCA made an investigation of their patents and found out how few they were actually using. It was such a ridiculously low number that it made you wonder about patenting some of the things they did patent. So, you can understand why some countries have a high fee and want you to work the patent in their country. If you don't work the patent because it is not worth it, or if you're not entitled to it, or whatever, countries feel they can put a high fee on the patent so that you won't maintain them. They're trying to lessen the number of patents they have to contend with.

MR. SMITH: One of the problems with being this far down the table is that most of the key comments have already been made. I wanted to follow up a little bit on what Bill and Maury said. The maintenance fees are a serious problem. I understand that one of the reasons they are a problem is that the EPO shares maintenance fees with the countries in which the patents are actually in force. It's true that you can prune. When I was managing IBM's intellectual property affairs, we spent a lot of time pruning to maintain the minimum number of patents; but I think that misses the point a little bit and that is that you're forced, as Maury points out, economically, to get rid of patent coverage in certain countries because you can't afford it. However, you're not forced to make those same choices in the United States, at least to the same extent, because of the cost difference. So, I think we really do need to attack the problem, not by getting rid of patents in high maintenance countries, but by attacking the maintenance fee problem in those countries. One of the problems that we've discovered over the years in trying to decide what patents not to maintain is that the crystal ball sometimes gets a little murky or the art takes bends that you don't expect it to take. You can find some terribly valuable property that you've allowed to lapse because you didn't think you needed it or couldn't afford to take the chance to keep it. So, I think we need to deal with the problem head-on rather than by talking about getting rid of patents in high maintenance countries.

MR. BALMER: My points are threefold. First, there's an awful lot of cost inefficiency in having a plurality of patent offices. This has been mentioned before. An examination in one patent office, an examination in another patent office, and a further examination in still another patent office, doesn't necessarily mean for every country that you are going to have a better patent. Obviously, some of the maintenance costs we're talking about get folded back into operating the plurality of examining patent offices, and we're supporting those inefficiencies.

I think the other side of the concern, and my second point, is what I call "Newtonizing" of the U.S. Patent Office. Right now, we have $55 million going back to the general fund, not into patent examining. It's going to be a source of vulnerability in the future when we urge efficiencies throughout the patent offices of the world. So, before we start throwing stones, we've got to make sure that we're able to control what we do here in the United States, lest we wind up in the same position as the Japan or the European patent system, where costs far exceed expenses for examining.

The last point I have is sort of picking up on Roger's policy discussion. We have a policy in the United States that I see does a lot to encourage the independent inventor and the small business. We have lower fees and an accessible and affordable system. When we look at what occurs internationally, the small business and the individual inventor are excluded from that "patenting" market. We should look at how the individual and small business in Japan or Europe survives in light of high patenting fees. Perhaps their policies are to force the multinational companies, such as General Electric, IBM, or Union Carbide, to drop patent properties and provide an open field for small business to enter, as opposed to the U.S. policy of encouraging invention and patenting by the small business.

MR. GOLDRIAN: I would like to say something in favor of the European Patent Office. If you look at their figures, you'll see that the time from filing a European patent application up to grant, is the time when you spend relatively less money than before when you had to file in several countries. For instance, the average number of designations is seven, seven European national patent offices, and seven applications. You had to spend much more money, and this is one of the reasons for

the success of the European patent organization, where you have decided to spend less money up to the grant. Then the truth comes out because the national countries will ask you for a maintenance fee, and they are absolutely free in setting that maintenance fee. It may be much too high for a small country. That's possible, but what could you do about that? I don't know. Also, you have to translate, as Heinz Bardehle said already. I would be glad to have any progress in this respect to avoid such translations, but I don't believe it. So, what you actually have is expenses that are much less up to grant, compared with the necessity to pay an average of seven national applications in European countries. You are happy to have a big country with one patent office and one language. In Europe we have many small countries where it still is necessary or advantageous to file patent applications because in small countries like Sweden, Switzerland, and the Netherlands, there are companies which actually serve the world market. So, it seems for many companies necessary to file patent applications there, and if you do that the European way, you save money up to the grant, and then the truth comes out. So, I don't see actually a real possibility to decidedly lower the maintenance or translations fees. The only thing which we regularly do together with Heinz Bardehle and this Standing Advisory Committee, is to urge the European Patent Office to work more rationally than at present. You see what you can do in this respect is maybe to save $7,000 per application, but the basic difference will not be shaken.

MR. KONKOL: I guess I'd like to say first of all, that I thought Bud Berrier wrote a superb article on global filing costs and that such an effort to effectively address this problem was long overdue. I think it's a very important subject that needs serious attention and our constructive thoughts, but let me say that, notwithstanding Chico's comments about work-sharing, I don't think that's a realistic solution right now. I think that the problem is so serious that we have to address the problem yesterday. Rather than work-sharing, where a patent office in another country could effectively grant a U.S. patent, I think a better route might be regional patent offices like in Europe. Something similar has gone on in North Africa, and perhaps we could have a regional patent office for the NAFTA countries. Something might be practical in the future. But I want to also mention that working in a business, we spend a lot of time on this issue, on cost cutting especially, and obtaining the most bang for

our buck in foreign filing. So, I can't say that this article is any revelation, but I'd have to say I think it's the best gathering of information on the subject that I've seen so far. I think maybe it's a wake-up call. It's very clear-headed thinking on a bottom-line issue, and, as Bud mentioned, I think there is an alarming trend here that we should nip in the bud, or costs may continue to unduly escalate.

I remember I did a study in du Pont's automotive business on the costs of foreign filing about three or four years ago, and we made filing lists for three types or classes of inventions. One was eureka inventions that we were going to file in 17 countries where we had the most sales. Then we had a B list and a C list. I remember that for the A list, the total cost was over a hundred thousand dollars for the life of one patent, and that was in 17 countries. Bud's figures were for 51 countries, I believe. Just recently, I went back over the figures for a new invention and did some more number crunching, and it was worse than ever. In this case there was a very important invention that the client wanted to file in 27 countries, and they wanted to know how much we would have to pay next year, the following year, and the first five years. We figured that for one patent it would be roughly $20,000 to $25,000 this year, the next year, the next year after that, and the next year. That's for the first few years. So, you're talking about $80,000 roughly for one patent within the first five years, and there were three patents covering this technology. So, I was staggered, and I said, "Have costs gotten worse than two or three years ago?" Now, I have a better idea why because I read this article. The only other reason for escalating filing costs is that the exchange rates might have become worse, which might have made it about 15 to 20 percent worse over the last three or four years. So, as I said, I think we need to do something yesterday about this issue. We need to try to influence events in the future.

I guess my time is probably coming up, but I just wanted to add that I thought this issue tied into the other two issues. First, whether we need to reorganize the patent office, and I'd say looking at these figures, the U.S. Patent Office looks relatively efficient or economic compared to other patent offices. I don't know why the EPO figures are so expensive. I don't know if there are redundancies or whether they are making a huge profit or what, but I think it probably says something comparatively good about the U.S. Patent Office.

Second, I think if you have a process patent, you may have to file in a lot more countries than if you have a product patent. I think that speaks to the adequacy of patent protection for process inventions worldwide. I think that will relate to the issue of prior user rights.

MR. BREMER: I'd like to bring up the university perspective on this because I'm the only one representing that group here. One of the fundamental points is that one has to go back and look at the background and find that the federal government with tax dollars supports basic research to the tune of about $4.6 billion a year. Most of the basic research, the true blue sky research, is done on university campuses. With that we try to get as much protection as we can, but there's very little discretionary money for doing any of those filings, any place, even in the U.S. Patent Office. So, the reliance has to be on finding a licensee among the larger companies, many of whom are represented here, to pick up the costs for doing those things. Keep in mind that in the university sector, there's the publish or perish syndrome. I always like to look at it as publish and perish because fundamentally that's really what happens. Since tax dollars are used to support basic research, you have to presume that those dollars are spent so the U.S. public will ultimately benefit. If you can't get proper protection on the results of the research, and it's an economic problem to get that proper protection, the only ones that are going to really benefit from the research results are the foreign companies and countries. They will have access to the technology through the publication, and there will be no protection to prevent them from using the technology free of charge. It's a fundamental problem because in any grant proposal, there are no discretionary funds for doing any patenting of any sort, even though we've often tried to earmark funds as part of a grant proposal for filing patent applications. The government never allows that sort of thing. So what we do, even in the U.S., if we are able to initially file applications, a few of the universities can do this because they have some discretionary money, is usually pay the maintenance fee in the U.S. at three and a half years. At seven and a half years we'll look at everything. Because most of the funds in support of research come from the NIH and the NSF, the research tends to be life science oriented and, as a consequence, we are often dealing with the pharmaceutical industry. In that circumstance you have to really consider if you even want to pay the maintenance fee, because you have to look at an average

of ten years from development of the invention to the marketplace. You can add on the extension time, but that's little consolation to a potential licensee at the point of making the commitment to development. So, really, the university sector will pay at three and a half years and at seven and a half years; you are doubtful if it goes to eleven and a half years, as there will be a strong incentive to drop any patent that requires that maintenance fee. I just wanted to get that perspective before the group.

MR. COLEMAN: I want to second Chris's comments. The IP community has been aware of this problem, but this presentation certainly focuses a spotlight on some very specific areas that might not have been fully appreciated. Also, Chris and I both had similar thoughts in this proposal to encourage more regional offices, although there are political challenges. I'm not talking about regional in the sense of the EPO, which is really a regional prosecution agency. I'm talking about the long delayed community patent system. Perhaps Heinz might comment on how that's progressing or being encountered. I would propose that what should be encouraged is community or regional patent systems. In other words, one patent office, and each patent covering multiple states or countries. Regarding our present discussion, that perhaps would cut out a lot of the sharing of dollars along the way and might also significantly reduce maintenance fees. Although, I doubt it would reduce the translation fees.

MR. KONKOL: It could. Heinz's proposal does that.

MR. BENSON: It's interesting, Ed. The United States made that move 200 years ago. Imagine having 50 separate patent offices in the United States.

MR. ARMITAGE: I think I know what the problem is here. If we go back a few years ago, we could pay for foreign patent services in these dollar bills [holding up a one-dollar bill]. Then, you could get 240 yen for one of these dollars. Not too many months ago, you could have taken this same dollar, but to the Japanese, the dollar bill looked like this tiny little thing [folding it in thirds]. You could get only 80 yen. If you go to page 12 in your handout, and you think of a dollar as really being worth what the dollar was once worth, you'll see that keeping a Japanese patent application alive is almost exactly the same cost as it is in the United

States, if we hadn't taken and imploded our dollar by almost a factor of three relative to the yen. So, I think the solution to this problem is very simple. We need to stop running trade deficits with the rest of the world and make the dollar worth a dollar again.

Second point, I once did a cost calculation of U.S. versus Europe versus Japan, just counting official fees, not counting in patent agents' costs. I found something that was surprising to me. The United States was practically, these figures notwithstanding, the most expensive place in the world to get a patent, if you make a couple of simple assumptions. One assumption is that for the average invention, you're talking about perhaps a 12-year life span, not a 20-year life span. The second assumption is that for small businesses or other individuals seeking investment dollars, their cost of capital is high. Therefore, a more accurate way to do the calculation is by using an appropriately high discount rate or imputed interest rate and looking at present value dollar costs rather than taking the dollar you spend today and equating that equally to a dollar you might spend 15 or 20 years from now. When you do these two things together, you find out that some countries deload costs at the front end, such as the Japanese and the Europeans, relative to other countries that have higher front-loaded costs, such as the United States. In the most unkind cut of all, some countries actually force you to prepay maintenance fees for a substantial part of the patent term. In fact, the country that is most notorious in this regard is the United States of America, where the annuities for years 12 through 17 of your patent term are paid at 11 years 6 months after the patent is granted. When you factor that in for the average 12-year patent, you will see that these numbers look quite different in present value terms, given a reasonable discount rate.

Third point, I think if the United States wishes to sell to the rest of the world cheaper patent costs and elimination of redundancy, it needs to do two things. First, it needs to be the best patent office in the world. It needs to be able to do a patent examination that it can then take outside the United States and say to foreign patent offices, "It adds no value to repeat this. It's been done once here. We don't need to do it again and again and again and again." Now to do that, you probably need to have the Patent Office fundamentally restructured, perhaps as a government corporation with more managerial flexibility. We'll get to

that later in the day. Second, you need a domestic patent law that really does the job once for the rest of the world. We frankly are not able to do that with the current system in the United States, with its peculiarities of relying on invention dates rather than filing dates. So, perhaps sometime we'll get into a serious discussion on the harmonization driven changes that we need in the United States in order to really be the world's best patent office.

Fourth point, we need to take the lead in international cooperation. When the United States ratified the PCT, for example, it was a very progressive step. We took almost every single reservation you could ever take including as to Chapter 2, including as to our 35 U.S.C. § 102(e) and including as to publication of pending applications. We need to unreserve ourselves under the PCT and say, "Look, the PCT is a great cost deferring vehicle in international patenting." Perhaps, if we can't do the so-called "work-sharing" immediately, to use that phrase, we could at least make the PCT a vehicle for completing examination in at least one office by providing a longer international stage than 30 months.

Finally, we need to set a model for the rest of the world on how patent offices are and are not financed. Until the United States exclusively uses patent user fees for the patent offices' own work, it seems to me that it will be very difficult to convince European countries that that's the way that they ought to operate. So, I think as soon as we fix everything at home, perhaps we will be in a position to deal with fixing the numerical costs that we see seemingly out of control outside the United States.

MR. GRISWOLD: My points really relate to costs and access to the system. We believe that costs and access to the patent system around the world are the most critical issues. There's a lot of talk about the 20-year term, but costs and access are really the critical issue to everyone that's in the system or not in the system, including independent inventors. I think that's where the focus ought to be. Bud's paper is very pertinent. The first question when you look at costs is why are the costs what they are, and is this because of what it costs to maintain a patent office, or is this some revenue-generating system for a particular country. I think our position should be that the applicants' costs in the patent system should be based on what it costs to run the system itself. Now, the maintenance fees under that kind of system are just fees to pay for the cost of running

the system, and maybe they work out appropriately. If indeed the costs relate to what it cost to maintain a system, then the best thing, with a large system, is to make them smaller or fewer.

So, in my view, we're better off if somehow we can get down to a position where we have very few patent offices in the world, and you get full faith and credit from one to the other. In fact, you should be able to get a world patent by prosecuting the patent application in one country and having it applicable around the world. I think that should be the vision that we seek as we work through this process. If patent costs are based on what it costs to run the patent offices, and we reduce the number of offices based on giving full faith and credit, and we have world patents, then we'll be better off. So, that's the basic tenet, and I think that cost is a major issue. It does lead to heavy portfolio management in large companies, and it leads to no portfolio establishment with small companies and independent inventors. I think it is the most critical issue in the patent system today.

MS. LINCK: First, I'd like to say I'm not sure that there is as big a problem as has been stated by some, although some have questioned it. I'm always skeptical of statistics. I think the story is: there's lies, damn lies, and then there's statistics. So, I think we have to be careful of numbers. That's not saying they're wrong, but I think we have to look at them with a questioning eye. A number of people have said, you know, where's the money going. Don't we know at this point? We've been critical for years. Is it wasteful? Is there a big profit in the European Patent Office? I don't know. I know how expensive it is to keep an office running now. I have heard the European examiners are very happy with their work and that they stay. We have a big problem in our office keeping good people. It is almost impossible to keep lawyers. I think our examiners are underpaid. I don't think the facilities are very good for them. Perhaps we need to up our fees so that we can keep good people in our office. This is my own view, not the Commissioner's, and I don't want you running out and saying, "Nancy Linck says the Office is going to raise fees," because I haven't heard that message. I just raise that as an issue to think about. But assuming there is a problem, what is the solution? I've heard only a couple of people offer solutions. Well, I absolutely agree with what Bob said, and I'm going to be a little bit repetitious. Work-sharing, that's a possibility. I believe Hal Wegner

proposed that at a time when we were moving forward in the harmonization area. Regional offices, I don't know if we can do that until we harmonize our laws. The Commissioner is trying very hard to get the Europeans to get down the costs, but we are at a time when we are thumbing our nose at harmonization. We're backing off in every single area that would harmonize our laws; 20-year term and 18-month publication are getting resistance, and even expanded reexamination is now getting resistance. We have a handful of people in this country that absolutely do not want to harmonize with the rest of the world. They will not sit back. They will not recognize that we cannot compete in a global economy without harmonizing our laws, and we have to do that. The balance of trade can't be corrected until we become a competitor in the global market. I think that's just a major problem. Therefore, I think maybe we have a problem. Maybe the article is right, but we're starting at the wrong place. We've got big, big problems in this country right now. We are further away from harmonizing than we were when I first became involved in these discussions back in 1987. We need to move back into the area of harmonizing our laws, and then maybe the Europeans will work with us. Bruce Lehman cannot work with the Europeans when we're telling them we're not interested in playing the international game.

MR. GOLDSTEIN: I agree with Gary's comments. The issue here, being one of cost and access, is really one that we need to consider carefully. Having spent many years working for a large international company, and then moving to private practice, has really focused the issue for me. In a large company there are many ways you can deal, at least in the stopgap way, with patent filing cost issues. Some of them have been discussed this morning: PCT filing to push filing costs as far into the future as possible, putting your applications in the best possible claim structure form for each country, and weeding your patent portfolios to eliminate patents of little commercial value. The bottom line is that for large companies the cost issue means that they file in 15 countries instead of 20 countries or do not maintain patents of dubious commercial value after 5 years rather than keep them for their full length. This, of course, will differ based upon the particular technologies involved. A lot of what we've spoken about this morning, in terms of weeding patent portfolios, is based on the experiences of electronics and computer

companies. In pharmaceutical technologies you frequently don't have that kind of flexibility. The last years of a pharmaceutical patent may well be more important commercially than the initial years of that patent. For many kinds of clients, medium companies, small companies, independent inventors, and universities, high patent costs represent an issue of getting in the door at all. We have many, many clients who come up with interesting technology, scrape together the money to get the U.S. patent, and then dedicate the rest of the world to the public because they can't afford foreign filings. That can't be a good situation. I think that Mr. Berrier's paper is very interesting in that it really focuses the issue. It ought to be the start of a lot of discussion because it raises some important questions. For example, why has there been such a clear increase over the past few years in total patent costs? What is going on? What would the effect of market forces be on this situation? On Mr. Berrier's list I see a lot of high-cost countries like Ukraine, Russia, Norway, and Finland, where I think many companies just wouldn't bother filing because they wouldn't get value for their money. Would such market forces cause an eventual lowering of costs? Other issues like the interaction between harmonization and patent costs need to be considered. Why harmonize patent laws when costs will keep most inventors out of the system? The bottom line is that cost isn't an independent issue. I believe that the cost issue must be carefully studied in this larger context.

MR. LOWIN: Bud Berrier's paper has a sentence in it that reads, "Harmonization should provide speed and predictability and lower costs." This bears some relationship to the foundations that were laid for the Court of Appeals for the Federal Circuit (CAFC). I've recently been advised with respect to harmonization, however, that since we have the GATT implemented, that it's no longer a topic of discussion. I couldn't disagree with that more. The progress that we have made to date has been primarily procedural. While that's truly noteworthy, and it has made many accomplishments toward making the system better, from the comments that Mr. Berrier made and based on the international associates' fees that I pay, we have not accomplished the cost goals nor have we accomplished the predictability and speed goals. In terms of costs, we've been talking about the cost of filing, but in my mind, the biggest cost of the international patent system as it exists today is uncertainty,

which is also something the CAFC was set up to deal with. I don't know what subject matter my client can get a patent on around the world. Every place it's different. I don't know what specification I have to file in order to satisfy the requirements of all of the different patent offices around the world or how they're going to apply art, and that's just the beginning. Once I get that patent, the way it gets enforced in all of these different countries is a regular nightmare. Substantive inconsistency is a major, major cost in the international patent system. I think a great step in accomplishing these goals would be a world patent system. It's not going to be popular with the existing patent business, both the patent business from the side of practitioners and the patent offices. After all, if we do move to regional or world patent offices, it's going to threaten to take money out of all of our pockets. There won't be as much to do. Every time you file an application, you won't have to go to 50 associates in 50 countries and pay the 50 fees to them. Perhaps a world patent system can be set up as an alternative, allowing the existing patent systems to coexist with it and giving the people a choice. Let the market determine what system is the best. Perhaps it can be set up so that the individual patent offices still maintain an important role in managing records, taking care of oppositions, handling prosecution, and filing the applications that originate in their countries. We could accomplish standardization, both in prosecution and in enforcement, through a world court of appeals for patents.

MR. KLINE: I think Bill Keefauver made a very good point. As you look at these charts and analyze them, maybe the problem is not as big as it initially seems. Bob and Gary made very pertinent comments. As Heinz said, a number of items relate to the filing, prosecution, and maintenance of an EPO case. When you look at it in terms of the number of European countries involved, are the numbers really that shocking to you?

MR. WAMSLEY: Let me add just a comment or two to what has already been said about the concept of a world patent. Bud Berrier's statistics tell me there is a problem here. You have to pay $472,000 to get protection in the world's global economy when you make an invention. The reason you have to pay $472,000—that's for 52 countries and we have more than 100 countries in the world today—is

that each one of those 52 countries thinks it has to be a money collector, and a great many of those 52 countries are taking the opportunity to make some profit when they collect the money. We have a long, long way to go to get to the world patent, but as Gary Griswold said, what we need ultimately is world-wide patent protection, protection in all countries that is automatic. When we get to that point—and we may be talking about the 22nd century—but when we get to that world patent, we shouldn't charge people according to the number of countries in which they are protected. That's the wrong concept. We should be charging whatever it takes to do one thorough, comprehensive examination and to issue a patent. It may be that the world patent will have to coexist, as was mentioned, with national patent systems. Maybe that's the way to get competition. I think one of the great fears of setting up a world bureaucracy is that it will be even more bureaucratic than the national bureaucracies. If you can set it up so that it competes with the national systems, then maybe it would work.

MR. BENSON: Were you talking only about the prosecution in obtaining the patents or also the enforcement?

MR. WAMSLEY: I was thinking primarily about obtaining the patents. World-wide enforcement is a tougher nut to crack. Maybe that's the 23rd century.

MR. WELCH: This is my first conference. I realize you've got to get in early or you're going to get superseded, but I do have a couple of comments about the PCT in the world patent costs. Not only are countries not allowing full faith and credit to PCT preliminary examinations, but the U.S. Patent Office has a practice of actually charging you more money for a case entering the national phase after a preliminary examination has been conducted in Europe. This seems to have no justification. In other words, we're not even recognizing the value of having a search and preliminary examination done by another office, not necessarily giving you full faith and credit, but giving it some value. Instead, they charge you more money for that. So, I think that's something that could be done now to recognize the value that you're already getting from other offices. Another aspect here that may have a positive impact on costs is the idea of having fixed fee schedules for associates in countries. Does it make any sense that it's 165,000 yen to

file a case in Japan whether it's 10 pages or 400 pages? Shouldn't we have some value of competition in that realm? So, we haven't really talked about that aspect, but I think the value of competition and getting away from the idea of having fixed fee schedules would be helpful. I think it also works in the area of translations. I know there have been articles written suggesting that depending on how the translations are done for the grant phase of the European patent, that you can save a lot of money by using other translations services. Issues there, of course, concern requirements of whether you have to proceed through an attorney to do that and also the quality of those translations. I think those are other components of cost that we need to look at in this equation.

MR. BUDINGER: I'd like to pick up on Bob and Nancy's theme of putting our own house in order first. It strikes me as ironic that we spend, according to Howard, $4.6 billion of American tax payers' money to encourage research and create new ideas. Yet we then turn around and levy a tax on the very seed of innovation, the patent process! It strikes me as very bad economics that we should be willing to spend so much money on the one hand to encourage research and then sabotage that effort by placing a tax disincentive at the most vulnerable point in the process. The craziness is made worse because the tax yields only a few tens of millions of dollars, which is what happens when taxes are levied on the seeds instead of the harvest.

The second concern is the high cost of foreign patent protection. I'm a small company who has withdrawn this year a number of patents because we couldn't afford to pay the foreign maintenance fees on them. We're starting to get some serious bills for maintenance fees on our existing foreign patents. So, more and more we elect to eschew patent protection and go into the battle naked, without patents. Given the cost of foreign patent protection, the trade secret becomes a preferable route. Even Bob Rines's idea, which is a good one, that we only patent in the countries that are significant, does not solve the problem. After enough of those "significant countries," it still adds up to an intolerable burden.

But what is really important is a low entry fee to get on board the patent system quickly, expeditiously, and as cheaply as possible. This is what encourages innovation. The problem is how to fund the Patent Office. I've heard some proposals at other gatherings that the Patent Office could be funded by a royalty on successful patents. The theory is

that inventors who are successful owe something back to the patent system. In a way, it strikes me that's what the maintenance fees in effect do. I'm told that in the U.S., at the 11 years 6 months point, 70 percent of the patents have dropped out. Only 30 percent pay that final fee. These numbers suggest that those remaining patents, upon which the final fee is paid, must be yielding returns to the owners. In effect, the maintenance fees are royalties on successful inventions. Similarly, inventors who elect to abandon their patents rather than pay the fees open up the field to others who might find a way to more successfully use the technology. So, perhaps another way we could look at maintenance fees, particularly the ones that are very low at the front end and then escalate further on as the patent ages, is that those maintenance fees are a kind of royalty that returns some value of that invention to the patent system. This interpretation works so long as those fees pay for the patent system and stay out of the National Treasury.

MR. MACKEY: It occurs to me that the harmonization effort over these many years has dealt with many matters that never seem to me to be terribly important. One time I was asked by my general counsel what was the purpose of the whole harmonization effort. The purpose, as I described it to him, was to arrive at a patent system throughout the world that would provide a fair degree of protection at a minimum cost, a matter that certainly can't be solved today, but I think is worth considering. Consider a world-wide patent which would consist of a registration system alone. If a party desired an examination, it could get an examination at any one of three offices. Those would be the only offices that one would seek an examination in.

Now to the issue of enforcement. My experience has been primarily in the U.S., but also abroad in some parts of the world. When you come to the point of enforcement, the whole job of the examination has to be done over again. My bottom line then is: Would we not be better off in many, many instances with a registration system and a world-wide patent?

MR. BERRIER: I think it's clear what drives the world's patent costs. It's redundancy, and it's governments raising money, taxing in effect. One possible solution to this cost problem would be to treat official fees, filing fees, maintenance fees, whatever the fees are, as a tax,

as a tariff, and to limit the tariff that can be charged. Once we do that, if we can do that, through our trade representatives working with Europe and Japan, just like TRIPs was done, then I think we will force the world's patent offices or countries to make the right decisions. Then, we can get to a registration system. If a country realizes that the most that it can collect for a patent is X dollars, then they're less likely to put up a Taj Mahal patent office and hire thousands of examiners to duplicate the very same work that was already done in three or four other countries. They'll register. Look at what happened in Singapore. We used to be able to register U.K. patents. It was very inexpensive. Now they've put in a patent office, and they're going to examine, and the costs are going to skyrocket. But we can't tell Singapore they can't do that. We can't tell countries, "You shouldn't examine patents. You should let us do that for you." No country is going to accept that. But if all countries live by the same rules, if no country can collect more than X dollars through the life of a patent in official fees, then countries will make rational decisions. Then a country may decide, "Well, maybe we ought to just take the money and register this patent that was examined in the EPO." So, I think that treating patent costs as a trade issue, as a tariff issue might be one solution. But before we can really press that solution—I mean it has to be pressed by a combination of the U.S., Europe, and Japan as a practical matter—before we can do that, we have to get our house in order. If Europe, Japan, and the U.S. don't have patent costs down to the threshold that we are talking about, we can't tell others that they should have low patent costs. So, first we have to try to get Europe to pull their belts in, and then I think we have to work the issue as a world trade issue, as a tariff or a tax on the very inventions that fuel the world's economy, that fuel jobs. That is one possible solution.

MR. GHOLZ: The question has been asked whether the European Office and the Japanese Office run at a tremendous profit. Probably not. It's like any closely held corporation. They never turn a profit. They never turn a profit because the money goes out to the people that control the company, and you make sure that it doesn't turn a profit, or as little as possible. The European examiners appear to live much better than the U.S. examiners. The impression one gets is that they are much more highly paid. That, of course, has a great benefit. They don't have the turnover that Nancy was referring to, but there's

where the money appears to be going.

Second, there has been a lot of hand wringing and a lot of suggestions that may be beneficial in the long run, but are not likely to make a change immediately. Getting our trade deficit down is not something a bunch of patent attorneys in Concord, New Hampshire have a lot of control over. But Heinz had a suggestion that we might have some control over and might work. That is trading *In re Hilmer* for an agreement on a country-by-country basis: first Europe, then Japan, then anywhere else. The deal would be that we could file in English, prosecute in English, get our patents in English, and only do translations, if ever, when it comes time to litigate the patent. Now, that's the sort of deal the U.S. Patent Office can propose in the trilateral negotiations. It strikes me as one hell of a good deal. In fact, such a good deal that I wonder whether Europeans would really buy on to that. *Hilmer* has its advantages. We all benefit from *Hilmer* from time to time, but I'd sell *Hilmer* for that kind of deal.

MR. RINES: I'd like to call to your attention, and I hate to do this because I'm no "Japanophile," if there is such a word. I think Japan has a great idea in the deferred examination for seven years. In effect, this is a registration system. You protect yourself by filing in Japan. You don't have to do a darn thing for seven years. Any time during that period that you want to request the examination, you can; and indeed there are circumstances where somebody else can provoke it for you if it's important, somewhat like in our reexamination. You are protected. It's there, and unless there's some economic reason why you have to get your patent right away, it's deferred. I hate to say it, I think it's great.

MR. BARDEHLE: There were a few questions. The first was on the community patent. The community patent sounds logical in the common market. The comparison in Europe is always the United States. Since you have a common market with a common patent, why shouldn't we have the same thing? However, I must say the community patent has no chance because it would make things even worse because of the obligation to translate in all languages of the community. So, you can forget the community patent because of the language problem.

The second issue is maintenance fees. The theory of maintenance fees is that they subsidize the costly examination in order to make

the entrance fees, the entering into the system, as cheap as possible. Unfortunately, I must say that the EPO makes a surplus. They make money, which is against the convention because the convention stipulates that they should require fees only to maintain the system. They are now considering to reduce the application fee, which is now I think 600 marks to 300 marks. That is something, but not very much. What would be much better is another proposal to shift the payment of the designation fees to the end of the procedure, not at the beginning. You pay these high fees for the designation at the beginning, and you never know whether you get anything. These fees are easier to be paid at the end, when you know what you get. Then you can make a real decision and are not too shocked by the entrance fees. This is the situation which we have with regard to the entrance fees.

Now with regard to the idea of work-sharing and extension of protection to other countries, this idea was, as far as I remember, discussed or proposed in the first PCT draft. I remember that because I was a member of a delegation at that time. The PCT's first draft included the idea that when something had been done, it could be extended to other countries. The response was an uproar from the national delegations because nobody wants to lose money for the work of the national patent office, but the times have changed. I think the idea for exchanging of work, at least among the three big patent offices, has been discussed in the trilateral negotiations already and also to a certain extent in the Standing Advisory Committee of which Hans Goldrian has just spoken. It has in my view a certain reality, and there's a great advantage of that. We have a certain competition among patent offices, essentially among the big ones. We have that effect of competition among patent offices in Germany. The competition between the EPO and the German Patent Office also stimulates to a certain extent the examiners. They know they may lose clients, and they don't want that. Competition is always good, even in the patent system. There is a chance to bring that idea forward, and the basis for the discussion in a forum could be the trilateral cooperation. However, the problem for the EPO President is that he has no mandate for it. Yes, he can talk about it, but he has no mandate to make these proposals. The national countries in Europe are very anxious to see that their rights are reserved, but if there's pressure on them from your side, from Japan, and from other sides, then I can

imagine they would be more open to discuss that possibility to have the extension of work that has been done already in one reasonable patent office. I agree with you that this requires more harmonization. Let's go back to harmonization.

MR. KEEFAUVER: First, a comment on Howard's well taken observation that there's something wrong if we allocate money at the federal level for basic research, but not for protecting it. I think that signals to me a call to begin some political pressure on the Science and Technology Committees in Congress, who might not be unresponsive to this. To take that into account, while perhaps of no probative value, the Department of Defense at one time allowed patent costs under cost-plus, fixed-fee contracts. So, it wouldn't be the first time that the government took some recognition of the importance of protecting the fruits of this research.

Second, and more or less a footnote on the early observation that TRIPs may force developing companies to adopt systems which they then tax at such a high rate that they are of relative little value. In the Advisory Committee in the TRIPs process, we worried about that and talked to our negotiators. A decision was made that there was no realistic way to write language in TRIPs that would prevent them from instituting exorbitant fees. A decision was made to let that lie with the disputes resolution process, and I mention that because it's fairly new. WTO is new. We don't know how all this is going to work. It would be advisable to start to put together a story based on Bud's interesting numbers and get them in front of our USTR people, or whoever in government will be responsible for deciding whether to institute a disputes challenge, because under the GATT, you can cross-retaliate. In other words, you can have a problem in fishing, which you solve with agriculture. So, if these people have a laundry list of grievances, they may be able to trade tariffs on cedar shingles for lower patent fees. So, I call to your attention a relatively new lever on which to pull. It may not work, but I think it's not too soon to start to bring to the attention of our trade people issues like this that they can have in front of them when they sit down with their counterparts in WTO and start to haggle over some of the rough edges of GATT.

MR. BALMER: The comment that patent offices are in competi-

tion has me a little bit concerned. I'm not sure what they are in competition for and how you measure who's winning. If it's who grants the most number of patents, I am very concerned.

We have inappropriately been focusing on what the costs are to get that piece of paper, the patent. I'm sure to a General Electric or IBM or Union Carbide a patent is but a piece of paper. One has to look at what one can do with that piece of paper and how much it's going to cost. I harp back to what Len said early on, maybe a registration system is viable, because ultimately you're out there reexamining every time you go into litigation. Let me add two more dimensions to that. Yes, you are reexamining every time you go into that litigation, but you're also looking at the cost of that litigation. Hopefully, the cost is minor in comparison to the benefit that can be obtained. If there's not an adequate remedy for patent infringement or if it takes too long to get the remedy, that patent is not worth anything. So, when we start balancing costs, we need to find out what is the certainty of return from that piece of paper.

MR. KONKOL: A few miscellaneous comments. I'm not sure I fully agree with those who are trying to down play the cost problem here. I think their thinking was that "well, you can weed out these patents because these inventions aren't really any good after all. So, therefore, you only have to pay $472,000 when you have a good invention." I think that might not be a complete answer to the problem.

The other thing I wanted to say was that delaying costs for that first five years is very important, and I think nobody has mentioned that the Patent Cooperation Treaty was a great idea that really helps reduce global filing costs. Just think of how much worse it would be without the PCT. Whoever was involved in that treaty deserves a lot of credit, using our hindsight today. Another constructive suggestion would be to get all the countries in the world to be members of PCT because there are still quite a number of countries in Asia and the Third World who are not members. You have to file nationally in those countries within your first year when often you really don't know how good an invention is really going to be. A lot of times you need two or three years, and then maybe you can get financing from somebody else if you license or don't have enough money right away. I think delaying translation costs was a constructive suggestion by Heinz. If you don't have to translate in ten

languages in the first five years, that would certainly save a lot of money. Maybe you should only have to translate the claims and abstract. Why should the inventor have to pay to translate 50 examples? Why is the patentee penalized for disclosing more information? That seems to be counter-productive.

One other issue is this proposed publication of applications. I think that's going to worsen the cost problem because if you require publication at 18 months, people are going to be forced to foreign file within 18 months or lose their global rights. Right now, with average dependencies and CIPs, an inventor can pass the convention date and wait a couple of years before they invest the money in foreign filings. So, I think we might want to consider alternatives such as voluntary publication or publication later than 18 months. Automatic publication at 18 months would be OK, however, if the application claims priority to an application that has already been published or issued here or abroad. I just throw that out to consider perhaps.

MR. ARMITAGE: I'd like to begin by commenting that I know of no one who passes up the convention year, except in the most extraordinary cases to file an application out of convention. The rest of the world uses an absolute novelty standard. I failed to give my true feelings on translations, and I'd like to do that now. For most, if not all, major technologies, the language of technology is the English language. No matter what the native tongue is, the publications take place in English. The scientific conferences take place in English and only in English. The only thing that a translation of technical subject matter typically does is degrade its value as technical subject mater. A scientist working in a foreign language probably will not read the translated patent in her native tongue because she will know that if she wants to understand the technological disclosure, she ought to look at what was originally published in English. Europe manages to waste about one-half a billion dollars a year on meaningless documents translated into foreign languages. It is not a cultural question. It is not a literary question. No one mistakes patent specifications for literature or manifestations of culture. Therefore, I submit that we shouldn't be talking about deferring these translations or finding special circumstances on which they should be made. They just shouldn't happen at all, ever, ever, period. This doesn't mean that we can't have a Community Patent Convention. What it

means is when we do have a Community Patent Convention, that each and every one of the countries who are members of that convention need to agree that there will be no translations if the original document is in English.

MS. LINCK: Yes, I'd like to make three points. I believe they're all in rebuttal. The first point is that an 18-month publication is absolutely essential if we're going to keep down costs and keep up quality in this country. With art exploding like it is, we need input from the private sector. We must go forward with 18-month publication, not only in the interest of harmonization, but also in the interest of the quality of our system and our survival in the global economy by putting the art in our inventors hands.

Second point, I know of no evidence that we're in competition with other offices. We are as much of an advocate for harmonization and working toward work-sharing and cutting down costs as anyone in the private sector. I didn't like hearing that message.

The third point is in response to Larry Welch's comment about an illogical charge in the Office. Our fees are not rationally related to the services that the public gets. I think you all know that. We don't set our own fees. Congress sets our fees. We would like our fees to be more rationally related. For instance, one fourth of our examiners, or almost one fourth of our judges, spend all of their time on interferences. The rest of the system is subsidizing interference practice in the Office. Is that right? I don't think so. I don't know what you people think. We are going to talk this afternoon about a bill to make us a corporation. That bill leaves the control of fees in the hands of Congress. That is a mistake. The control of fees and how they're allocated should be in the hands of the PTO.

MR. LOWIN: Let me clarify what I meant by "competition." I did not mean to suggest that there is an existing competition among patent offices with business or who issues the greatest number of patents. What I referred to is the practical aspect; that is, the resistance that a world patent office might receive if it appeared likely that all of the other patent offices would be put out of business. In that case I think that resistance would be an expected reaction. Nobody wants to be put out of business, and therefore, it would be a mistake to propose a

completely alternative organization that would damage what's already in place. That was the limit of why I talked about competition.

In turn, a very brief note on 18-month publication. I agree that it's desirable. However, I am not sure that it's constitutional in the United States. The enabling language of Article 1, Section 8, Clause 8, says that "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This clause has consistently been interpreted as providing Congress with the power to grant exclusive rights in exchange for the public disclosure of ideas and inventions. I don't know whether this "in exchange" concept mandates that some right be granted before we go and disclose people's applications to the world.

Additionally, in terms of something that can be done internationally to achieve a better economy, I think we could do something about restriction practice. The carving up of patent applications into multiple patents with multiple prosecutions and multiple fees is a tremendous economic burden on the system.

Finally, in terms of getting our own act together before we deal with international harmonization, I don't think we have that much time even if we're going to wait until the 23rd century. The United States has a lot of work to do on its patent system. I don't know that we're ever going to get to the point where we will get this many people sitting in a room, and we'll all agree, "Okay, the United States patent system is now in perfect shape, now let's deal with the rest of the world." So, it will be essential to proceed in parallel with international substantive harmonization.

MR. WELCH: I'd just like to make two comments. One, I appreciate Nancy's comment about the illogic of the fees. I agree that we probably should have the fees more rationally related to the services provided. But it leads right on to what David just said about unity of invention. The explanation that I had heard in the past why that particular fee, the entry into the national phase in the U.S. after the EPO preliminary examination, was so much higher was because of broader unity requirements under the EPO. If the EPO patents are broader and you have to get less of them to cover all of your invention, then the higher fees might be justified. I don't know if anybody has any data on

whether in the end to cover all your subject matter, you need to get more U.S. patents versus more EPO patents.

MR. C. BENSON: I have one comment or question. We talked about what we can do in the future. What do we do right now? What do we do to protect our investment in our technology right now? I have had this problem for a small client and a medium-size company. What I've done is try to "lay" the foreign prosecution fees and maintenance fees on our business partners in Japan and in Europe. That's one practical approach to this. If anybody else has a comment, I'd like to hear it.

MR. BREMER: Just a side bar to what Bob said about the language situation. I gave a paper at the Patinnova '94 Conference in Denmark, and there were two elements, one dealing with the language and one dealing with the competition factor. The language element was interesting. Over three days, only twice did I have to get simultaneous translation. Everything else was given in English. Whatever country was represented, it was all done in English. On the competition, the opening remarks by the chairman of the conference was that the European Commission is extremely worried that Europe is lagging on innovation very badly as compared to the United States and Japan. That was one of the fundamental concepts of going ahead with the conference, to see what other people were doing in invention and innovation.

MR. SHAW: Just a comment with respect to what Dave Lowin said about the restriction practice. It's not a big part of that practice, but it's there, and with this inventorship thing that was written into the recent changes in the law, I think people are going to start out with reinventors in a situation where you have medicine, material, a process that may be the method you're using. They are going to end up with different inventors for each of these things. In addition to everything else, people are going to get into trouble on this inventorship issue. They're going to get litigation. They're going to find out that the people that they call the inventors are not in fact the inventors, and they're going to lose their patents. I mean this is just that type of thing that is built into the system, and it will be very expensive in litigation. That is something we should avoid.

MR. MACKEY: In response to Chris Benson's question with regard to the foreign partners, it is certainly very common practice to lay the

foreign patent costs off on the foreign partner or at least as an expense of the joint venture that is being set up.

MR. RINES: I think the record ought to reflect the other side of this 18-month publication in the United States. I personally have never heard one argument that has convinced me that the ceiling is going to fall down if we don't have 18-month publication. About 75 percent of all the patent applications filed in the United States, many of which are not from American companies or American inventors, and many of which are from large multinationals, are published abroad in 18 months anyhow. Seventy-five percent of the inventions filed in the United States are already published in 18 months. I think there ought to be some concern; and that's why, Mr. Chairman, I'd like to put it on this record, that over 95 percent of the independent inventors, small companies, and universities, from our studies at the PTC and the Academy of Applied Science, do not generally do any foreign filing or do so very selectively. Therefore, those people will now have their infant ideas exposed to the world, and particularly Japan and Europe, that have wonderful capabilities. Before they even know if they're going to get a patent, before they have a chance to modify with continuation and continuation-in-parts or whatever it may be, they're giving away the failures as well the strengths of their ideas. You're taking away from this prodigious group the opportunity to abandon their application and go the burgeoning route of trade secret, if they want. This is a great penalty on this particular group, and where 75 percent of the technology is already published in 18 months anyhow. I'm waiting for the first sensible explanation about why we need it and why particularly we're determined to work such a hardship on the independent inventor, the small people, and the university who do not want this invention published that early.

As for the absurd statement that 18-month publication is designed to prevent "submarine" patents, Europe, and not the United States, invented the 18-month publication, and there never could be a "submarine" patent under their first-to-file system.

MR. MYRICK: I've enjoyed this discussion very much, but I guess I'm a little troubled that there is so little consensus around the room. We've got lots of wonderful ideas, but some of them come at each other from different angles and some of them are straight on. The concern I

have is that as we look at the data that Bud has put together, and I think it's excellent data, it makes two points, depending upon how you look at it: the rest of the world is expensive or the U.S. is cheap. And in an environment in which $55 million is already being taken out; I've heard that number today. I don't know whether it's correct or not, but $55 million is already being taken out by the General Treasury. In an environment where the Administration is looking to balance budgets, one wonders if our prices may not go up as a result of this effort. So, I think one has to be very careful. I particularly liked the comment that Bob made in regard to the present value analysis. I think we have to be very careful about the statistics we put out, that they've been viewed from both sets of angles, from the money makers' viewpoints as well as the cost cutters' viewpoints. We can end up making the case that our patent office is so cheap, and it's a source of revenue for the General Treasury, and prices should be in fact raised by the Congress who still has the power to set those fees, even into the new corporate forum.

MR. ARMITAGE: I wanted to make a couple of comments to make sure the record is complete on the issue of 18-month publication. For many inventors right now in the United States, the ceiling is falling down. It's falling down because if indeed it takes a significant amount of time to issue a patent, say four or five years, which only a very small percentage of patents do take that long to issue in the United States, that may exactly coincide with the commercial life span of the invention. In many high-technology fields five years may be two generations. Eighteen-month publication with provisional rights at least gives you a way, if you can't get rid of your competitors, to make sure you get a reasonable royalty from them.

More importantly, we have in our patent statute 35 U.S.C. § 102(e) that says eventually what issues with an earlier filing date is prior art, and there is no way to have a complete patent examination in the United States with all the prior art present unless it all gets out in time, in real time, to be part of the examination process. As we see from interference statistics, the PTO not infrequently issues the later filed patent first, indicating to me that we have the ceiling falling down on the entire examination process. We also have about 75 percent of domestically filed applications actually issuing at about 18 months. However, 45 percent of our patent system is derived from foreign-origin patent

applications. Exactly zero percent of those applications are issued within 18 months from the foreign priority date. The huge advantage, therefore, for us publishing at 18 months is that it forces the publication and divulgence of anything foreigners are putting in a patent office at about six months after the U.S. filing date.

Further, the idea that publishing at 18 months somehow frustrates the ability to use CIP practice is a peculiar one. Most inventions can't be commercialized, can't be put in commerce, can't be put to any public use, and can't be put on sale without triggering a 35 U.S.C. § 102(b) bar. Most inventions made by any estimation can't be kept as trade secrets once they're commercialized. So, unless you have an inventor who is not commercializing anything and, therefore, is contributing nothing to the progress of the useful arts, what really prevents CIP practice is the inevitable commercialization itself. The only thing 18-month publication would do is to promote the progress of science in the useful arts by allowing folks to avoid that soon-to-be-patented technology or design around or the like. So, if there was one thing we could do to our patent system to make the patent office run cheaper and better and the patent system itself work more efficiently, it would be to introduce a system of 18-month publication.

MR. BENSON: Okay, thank you. I'm going to cut this discussion off. We've got to get on to the other topics. Heinz, you'll remember this, but approximately 25 years ago we had meetings like this, and we discussed many of the same issues because at that time we were preparing to negotiate a patent cooperation treaty, which was a radical idea. I happened to be on the U.S. delegation, and Heinz was on the German delegation, and we fought vigorously over many of these same issues: make it easy for people to get into a world-wide patent system, cut down on the number of different kinds of prosecution, reduce costs, and defer costs until the patents were demonstrated to be commercially viable. So, it does sound like a repeat of history, but I think the discussion is very good, and it did allow me to reminisce a little bit about what went on a few years ago.

III. FUTURE OF THE U.S. PATENT AND TRADEMARK OFFICE

MR. BENSON: The person who is going to introduce the topic on the patent office being a private corporation probably knows more about it than anybody else in the country. Herb Wamsley got into this issue early, has followed it continuously, and has been involved in the drafting of almost every bill that's ever been introduced in Congress on this subject. So, Herb, your turn.

MR. WAMSLEY: I'll take a few minutes to introduce this topic. As we go around the room, I think we'll find there's not a consensus on a lot of the details. Two years ago, I was honored to be invited up here, and I introduced this same topic. I think it was late in the afternoon, and we needed one more topic to fill out the day. We had a discussion about what a bill might look like that would make the Patent and Trademark Office a government corporation. Even then, in 1993, the idea had been around a long time but I remember as we went around the table, most people thought it was an interesting idea, but it would probably never get far. We were talking about trying to reform the government and how hard it would be to get that onto anybody's radar screen in Washington.

A lot has happened in the last two years. Reinventing government came into style in the Clinton Administration and this year, also, in the Republican controlled Congress. Suddenly these ideas for converting the Patent and Trademark Office to a government corporation got on the radar screen of politicians in Congress, the Clinton Administration, and on the Patent and Trademark Office's radar screen. There has been a great deal of discussion this year. Right now, there are three bills pending in Congress to establish the Patent and Trademark Office as a government corporation and maybe a fourth bill to be introduced. The one bill that was mailed out to you in advance of this meeting is the Moorhead Bill, H.R. 1659. It's the one bill that's been discussed most. It's a complicated proposal. We don't have time to go into all the details of it today. I'm going to take you quickly through some of the main features of that bill and mention a couple of things that aren't in it. As we go around the table to discuss this, I suggest to you that we need to talk not just about the technical aspects of the bill, but about whether proposals like the Moorhead Bill overall are likely to do anything about the costs

that we were talking about earlier. We also should discuss whether the government corporation has anything to do with where we're trying to go internationally. Is the government corporation a step forward or a step backward with respect to regional patent offices or world patent offices? If the Patent and Trademark Office becomes a government corporation, will it still be involved in intellectual property policy with the U.S. trade representatives and others in the government at a high level?

It's impossible for anyone right now to say where these bills are heading in Congress. Last week, the House of Representatives actually passed one form of the government corporation bill. In fact, Congress passed it twice in the last two weeks, as a part of a measure to, as we call it down there, dismantle the U.S. Department of Commerce, which means to abolish the U.S. Department of Commerce. One chapter of the Commerce dismantling provision establishes the Patent and Trademark Office as a government corporation. Commerce dismantling was passed by the House of Representatives as a part of the Omnibus Budget Reconciliation Bill. As we speak today, the House and Senate conferees are meeting in Washington to decide whether Commerce dismantling will stay in the Omnibus Budget Reconciliation Bill. The Senate probably will knock it out today. If they don't, the President is sure to veto the bill. Just a few days ago, the House also put Commerce dismantling on the debt limit bill, and the Senate took that out yesterday.

That gives you a flavor of how this issue is being batted around down there. Chairman Moorhead in the House Judiciary Subcommittee has said that if a government corporation bill does not get enacted as part of Commerce dismantling, he plans to take it up as a separate measure within the next several weeks. That's the more likely avenue for having it enacted perhaps sometime in 1996. There is still a lot of opportunity to shape this legislation. My guess is that if something is ultimately enacted by Congress next year, it's going to be different from any of the measures now on the table.

I will mention the main features of the Moorhead Bill, H.R. 1659, which has been the subject of one hearing in the House already, and then leave it for discussion. The Moorhead Bill makes the Patent and Trademark Office an independent government corporation. It is not "privatization" because the bill does not create a private corporation.

The bill eliminates some of the standard government red tape, some of the restrictions on government managers. It gives the Patent and Trademark Office some of the operating and financial flexibility enjoyed by managers of private companies, while retaining the Patent and Trademark Office in the executive branch of the government as an agency that is subject to the control of the President of the United States. How does it give it this operating and financial flexibility that hopefully would bring the efficiency and the effectiveness that is generally thought to exist more in the corporations and law firms than in the government? Well, the Moorhead Bill gives the Commissioner the power to set the salaries of employees of the Patent and Trademark Office up to an upper limit. The conventional GS-scale would be scrapped, and the Commissioner would set the salaries. The Commissioner would have the authority to hire as many employees as the Patent and Trademark Office has money. Today, the PTO and other government agencies are subject to artificial employment ceilings. Even when they have the money, often they can't hire the employees. The Moorhead Bill would loosen the government personnel restrictions. It would make it somewhat easier to hire and fire government employees, though not all the restrictions are eliminated. Under the Moorhead version, the subjects that are permissible for labor-management negotiations would be cut back slightly. The Moorhead Bill would give the Commissioner freedom to contract out without going through the bureaucratic General Services Administration (GSA). The Moorhead Bill would give the Commissioner the power to lease office space for the PTO or build office buildings without going through the GSA. The Moorhead Bill would make the PTO independent from the Department of Commerce, which it is argued would eliminate problems that have existed with micro-management of the Patent and Trademark Office by middle managers in the main Commerce building who work for the Secretary of Commerce. The Moorhead Bill, although not the version now in the Budget Reconciliation Bill, would solve the problem of the House and Senate Appropriations Committees withholding patent fee surcharge money. The Patent and Trademark Office would have the power to issue bonds up to $2 billion total indebtedness, which is about three times the current annual budget of the Patent and Trademark Office. The Moorhead version does not change the existing fee-setting authority under which the fees are fixed by statute subject to the

authority of the Commissioner to adjust for inflation. The Administration's version of the bill recently sent to Congress, H.R. 2533, would give the fee-setting authority to the Commissioner.

Finally, the Moorhead version establishes a management advisory board which by statute would have considerable independence from the Commissioner and would advise the Commissioner, the Congress, and the President on effective management of the Patent and Trademark Office. The Moorhead version has 18 members on that management board: six appointed by the President, six appointed by the House of Representatives, and six appointed by the Senate. Those are the main provisions of the Moorhead Bill. I've mentioned a couple of points where the other bills now on the table differ.

MR. BENSON: Okay, we're now open for general discussion.

MS. HAYES: For those who don't know, I publish *Inventors' Digest*, a national magazine for inventors. The focus of the magazine is to educate the independent inventor about the process of new product development, which is probably why I was quiet during the talk about international costs, because we really don't address that issue. Most independent inventors can't afford international patents. They have enough trouble trying to get patents in the United States.

As to the issue of the Patent Office becoming an independent corporation, I understand there has been only one hearing, a one day hearing, on this issue. It's a rather huge and complex issue to only give one day of hearings on. The fact that it is in the Budget Reconciliation Act is something that troubles people from my arena because it seems as though something is being just shoved in, and we haven't had a chance to discuss it. One interesting point that I don't understand is on page seven of this bill. There is something that talks about gifts, that the Patent Office has the right to accept gifts and donations. An issue like that is very simply a technical issue, but we should have the chance to discuss it. So, I do hope that it doesn't make it in the budget, that we can discuss it, that the Patent Office will get the support and the money it needs to develop and grow. We also need to discuss the issue of debt. At a time when our country is trying to get out of debt, we are now authorizing an agency to take on $2 billion worth of debt. I think that needs to be discussed in great detail before it's passed.

MR. GHOLZ: If the PTO becomes an independent corporation, I think the significant probability is that the first CEO of that independent corporation will be Commissioner Lehman. I'd like to put in a favorable word for the nameless, faceless bureaucrats of the Commerce Department, the ones that Commissioner Dann was railing against in the material that we were given. I think there is some advantage to having somebody else in the government riding herd on the Patent Office and making them justify some of the things they'd like to do.

Two initiatives of the current commissioner have attracted the most attention around Washington. I'm sure Nancy will not agree that these are the most important initiatives. I don't think they're the most important initiatives, but they are the things we talk about most—the big neon sign on the roof of the Patent Office and the Commissioner's desire to make the Patent Office's upper circles look more like America. The Chief Administrative Patent Judge has recently retired, and we have been told that the Commissioner is now looking for minority candidates to replace him. Fortunately, there are some good minority candidates within the Office, but, if the circle of possible candidates is so limited, you're cutting out an awful lot of obvious candidates.

Those are two examples of what the current Commissioner is doing that I personally don't like. I'm sure that other people around this table could come up with other examples that the current Office is doing that we're not happy with. There is something to be said for having control and having these people justify their positions to other government bureaucrats, particularly with respect to fees. If the Office does get the right to set its own fees, those fees may go to the level where the examiners in our Patent Office get paid like the examiners in the European Office. I'm sure that would solve the retention problem, but it would have some other costs. I have not yet been persuaded that giving the Patent Office the amount of independence that it's asking for is going to be a good idea. We may all live to regret it if they get that independent.

MR. MACKEY: This is a point that Herb Wamsley may want to comment on when we come to the rebuttal period, but on page five of his testimony and proceeding on over to page six, there's a comment on labor organizations. It says, "Labor organizations in the PTO government corporation should not be permitted to strike, to bargain over

compensation, or to bargain over the number of employees assigned to work projects," and it goes on. I find that an interesting observation as to what H.R. 1659 would accomplish albeit probably politically impractical. I inquire what in fact can be done with regard to the labor management relations within the Patent Office. At least my observations from outside are that they are not good. The quality of the work coming out, I should really say the quality of the administration, leaves something to be desired in many instances. How will this new organization improve that?

MR. LOWIN: On the subject of PTO fees, as I understand it, and Nancy, please correct me if this is wrong, the Patent Office proposes a budget to Congress. That budget is designed by the Patent Office as its best estimation of the revenues it will need to generate in order to carry out its business for the next fiscal year, and there's discussion about whether the fees are being set properly. That budget gets adopted at some level, and then, off the top, Congress pulls off ten percent and says, "Well, now do it with ten percent less." That's the part that bothers me because it leaves the Patent Office trying to accomplish what it has fairly represented will require ten percent more revenue, and that ten percent disparity throws the Patent Office out of whack. If Congress wants to place a tax on innovation, I think they should be honest about it and put it on top of what the Patent Office requires to function, not take it out after that budget has already been set.

MR. GOLDSTEIN: I want to reiterate the point Herb made. When we spoke about this issue two years ago, it seemed pie in the sky. In 1995-96, it appears that this really might happen! Now, I think it's up to us and the entire Patent Bar to make sure it gets implemented right.

The quality of the patent examination is critical to a reliable patent system. Currently, the quality of the examination is spotty at best. Sometimes it's reasonably good, sometimes it's pretty awful, and it depends on many factors. One of the key factors is the retention of trained, hard-working patent examiners. If the PTO independent corporation is a means for providing better working conditions, better salaries for examiners, and would allow for greater retention, I think that would be an overall positive factor in terms of better patent examinations. Another point that I'd like to make, and someone, if I'm wrong, please correct me, relates to the retention of EPO examiners. Few, if

any, examiners leave the EPO to work in corporations or private practice. I think one the reasons for retention in the EPO is not so much the fact that the salaries per se are higher, but rather that EPO examiner salaries are not taxed. That is why examiners want to work in the EPO and how the salaries can in fact be higher, even though the dollar amounts paid are not.

I think it's essential that whatever corporate structure is adopted that the structure be such that those setting it up get meaningful input from customers of the Patent Office. That's something that hasn't happened historically and is absolutely essential to the performance of the Office. In addition, while I think it is important that the PTO manage itself, I don't think it's necessarily good that they go off on their own with no effective checks on their operations. Perhaps a board of advisors with board of directors-type powers should be considered. Under this structure, the Commissioner, like a corporate CEO, would be held responsible for PTO performance and for specific actions taken. I also think it's important that the PTO set it's own fees.

The only other point that I would like to make deals with performance bonuses for the Commissioner. Such bonuses, which are not in the Moorhead Bill, but are in the Administration Bill, are very risky unless they are done right. One of the problems with the PTO right now is the disposal system, a type of performance bonus, where quantity rather than quality of the work seems to rule the roost. I think if there is going to be a performance bonus, it is absolutely essential that it be based on quality of the work rather than merely the number of chits on a chart. That is difficult to implement since quantitative measures are easier to deal with, but it is very important not to fall into that trap again.

MS. LINCK: I may want to rebut. I went to the PTO because of what I saw as Commissioner Lehman's vision for the Office and for a better intellectual property system. I think that he has gone a long way toward fulfilling that vision or starting down many avenues that will fulfill that vision. I feel like I made the right decision going to the Office. I think that he has brought intellectual property into the limelight in our country in a way it never has been before. I think that's important and maybe a sign on the PTO is not the way that all of us would have done it, but I think it's a reflection of his desire to make us more visible.

With respect to looking for a new Chief Judge, and this is the first

I have heard he was looking for a minority person, he does have a commitment to diversity. I don't think that that means that he is not looking at all qualified candidates. He came to me and asked me if I had any recommendation. He didn't ask me if I had any recommendations in the minority area, so, in fact if you have qualified candidates or know people that are interested that are qualified, I'm sure that Commissioner Lehman will take a very hard look at those candidates. I think the comment really didn't reflect where the Commissioner is coming from. That's really broader than the corporation bill, which I've also been very involved in with respect to the Administration Bill. Initially, I believe it was conceived that the Office is running pretty well. I think we do have a well run operation. There are problems with it, as there are with any business, but the problems were from limits on the number of people we could hire, taking away our money, and fixing fees in a way that did not rationally relate to services among others.

The union issue, I'm not sure that the Moorhead Bill really changes the union power all that much. I don't know whether that's what Len was trying to say. Right now, they don't have the right to strike or power to negotiate wages. They still are quite powerful, and I think often times that stands in the way of what we'd like to do for the examiners, but that's a personal view. I don't think either bill drastically changes the labor management relations.

With respect to the performance bonus, while bonuses in the examining core are related to disposals, there is a commitment in the Office to reorganize the Office and have the performance bonuses tied more to quality and service to our customers. In fact, I just read a document that does that. With respect to bonuses at the higher levels in the Office, which would be what the bill speaks to, they aren't related to disposals, of course. The people in my Office that get bonuses are the truly outstanding lawyers. They are strictly rewarded for the quality of their performance.

I have a couple of concerns about the Moorhead Bill as compared to the Administration Bill, and who knows where we are going to end up. I hate to see too much change by any bill. I'd really like to just see the strings that keep us from being the best office we can be removed. There's a concern about how much input the Office would have with respect to policy making in the intellectual property area. Without

having any tie to Commerce, without having any tie to a seat at the Cabinet table, the feeling is that we would not be very effective in the policy making arena. Now, maybe there are those who think that we should have no role to play, but someone within the government has to be a spokesman for the government with respect to policy. That is where we are now, not only in the patent and trademark area, but also in the copyright area because the Copyright Office, of course, is not tied to the executive branch. It's tied to the legislative branch, and that's a real concern about the Moorhead Bill along with the fee setting by Congress rather than the Office. I think it probably is a good idea to have an advisory board. Our bill started out with an advisory board. I don't know whether it's in or out at this point with the Administration Bill.

I was concerned that someone said we don't get input from our customers. I think that's one area where the Commissioner really has reached out to our customers. We have held numerous hearings and whenever we think we are making a move that will impact our customers in any substantive way, we have tried to hold hearings on those topics. There are hearings coming up, as a matter of fact, in San Diego on November 29 and December 7 on examination of biotechnology applications. You might want to jot those dates down if you haven't heard about them. The notice just went out.

MR. JORDA: Just a couple of observations based on clippings I started to collect recently. This has become a hot issue and has engendered a lot of publicity. In fact, one struck me as of particular interest. It has to do with Switzerland. As of January 1, 1996, Switzerland is going to have a new institute for intellectual property that is going to be independent and self-supporting. It will be a slimmed down version of the government department that it is replacing. The federal government sees the operation as a pilot project, which if successful, could be followed by the separation of other government departments as part of the slimming down of the federal bureaucracy. I remember having read about yet another country where this is happening. I forget now which country it is, but perhaps this is a bigger movement, something that is in the air.

Incidentally, *Business Week* a couple of weeks ago had an interesting article on this issue titled "New Patent Office Pending." It refers to the fact that millions of dollars are now being squandered on inflated rents set by the General Service Administration, which could be

avoided. It also mentions that the Patent and Trademark Office can't expand its staff because of the '94 Workforce Restructuring Act. This new corporatized Patent and Trademark Office would become more flexible and be able to cut waste. On the other hand, it was pointed out that opposition is building among the PTO staff, independent inventors, and small bio-tech companies. So, it may become controversial, and when something becomes controversial, watch out. Congress doesn't want to touch it. This would be very regrettable because I see a lot of merit in corporatizing our Patent and Trademark Office.

MR. GOLDRIAN: I have a remark and a question. First, the remark: The German Patent Office is one of the very few which are dependent on the Justice Department. Most of the others are dependent on Commerce Departments. I remember that the former President of the German Patent Office, Erich Häusser, frequently complained about the obstacles laid in his way by the Justice Department. One of these obstacles was that Mr. Häusser wanted to do a lot in patent documentation and information. There was some doubt whether the Patent Office should do more than just handle patent matters and do some information and documentation for the publication of patent literature. So, he was complaining about that. I just wanted to put that up for consideration—whether you would believe that this is a good thing for a patent office to do. I personally believe so.

Second is a question: Would it be possible to sue the patent corporation in an ordinary court for patent grant?

MR. WITTE: I have a couple of quick comments in response to some things that Joanne Hayes and Nancy Linck said. I just wanted to remind the group that the Patent Office has had a gift program for many years that's been very successful. It's the money that corporations donate for examiner education, particularly field trips. It's done on an anonymous basis. I've never heard any criticism that these gifts in any way influenced what went on in the Patent Office.

Joanne also raised a point regarding the debt of $2 billion. As I understand it, the debt would give the Patent Office corporation a chance to achieve efficiency and actually save money on matters such as exorbitant rents that they pay right now for the Crystal City Office and also the large costs involved in buying automation equipment. I think

those are the main reasons for the debt authority.

Also, Nancy Linck talked about the receptivity of the current Patent Office administration to input from the Bar and the private sector. Well, as I understand it, one of the first things that Commissioner Lehman did was to throw out the report of the Advisory Commission that took place prior to his administration. That was a tremendous amount of very fine work from a lot of talented people. I just don't really compare that to receptivity by the current commissioner to input from the outside.

MR. ARMITAGE: I would like to begin by following up on a comment Chico made. I told Bruce Lehman that I was extremely upset with the sign that was put up on the Patent and Trademark Office. I told him it was much smaller than the sign I had planned to put up, and his sign didn't even flash.

In any event, to respond to one more point that Joanne made, the source of this interest in the PTO as a government corporation actually goes back quite a number of years. I don't know if Herb cited the original interest in this issue on the part of IPO, but it really goes back to the mid to late 1980s. It started as a great last hope to solve some long standing problems that the Patent and Trademark Office has had. The IPO commissioned a study. That study was published and was fairly widely circulated.

Beginning in about 1990, the American Intellectual Property Law Association actually established a special committee designed to look into this issue. I had the privilege of chairing that committee, and we prepared about an 80-page report that examined the historical problems of the PTO in terms of its relationship to the Administration and its relationship to Commerce. The problems were not new. They are chronic.

The problems have been episodically dealt with by Congress, but Congress has yet to really accomplish much. There were actually hearings that Senator Deconcini held in 1993. Don Banner testified on behalf of the ABA, and I testified on behalf of AIPLA. We both emphasized that the government corporation was an idea that Congress ought to take seriously. The fact that the Clinton Administration in the course of reinventing government picked this issue up is more than fortuitous. It now provides the real possibility that Congress will take a

serious interest in getting something done.

Now, why should we do this strange thing? For me, the reason that we should do this is because nothing in PTO management can ever get any better. We almost have nothing to lose by giving the PTO management more flexibility. We now have a situation where all sides are losers. The PTO loses in the way it procures things from the private sector, the way it deals with the private sector, and the constraints it has on its own budgetary process. The PTO is shackled in such a manner that it really can't run itself efficiently.

From the user side, there is frankly very little influence over how the PTO sets its fees, and how it negotiates with Congress when it seeks a major fee increase. There are just certain things that by law can't be divulged in terms of PTO records. The key thing about the bill that AIPLA supports is that there will be a private sector advisory board and that private sector advisory board will have resources to actually determine how the PTO operates. That is a very powerful tool. It's a powerful tool because nobody in the Administration wants anyone writing a bad report or saying they're doing a bad job or saying their proposed fee increases are too large. My hope would be, if the PTO were to become a government corporation, that we would see a balance of power and influence.

The PTO would get all the flexibility it needs to really efficiently run itself, more or less like any enterprise would run itself, including the authority to propose and set its own fees. My hope would be that whenever a major change in management was being undertaken or an operation would be undertaken, that the private sector advisory board could either say, "We've been listened to and this makes sense," or say, "This is dumb, and it's dumb because we now have our 30-page report that explains why it's dumb." Congress will not do that through oversight hearings, but Congress will be very interested if there seems to be tension between the private sector and the PTO. The private sector has more than just glib generalizations. They actually have some documentation as to what's gone wrong.

We have seen enormous management problems in the PTO. You can look at the automation project the Office has undertaken in a profoundly misguided way for so long and see hundreds of millions of dollars wasted, and say, "It's not a product of the people in the Office

being incompetent, but the product of the people in the Office suffering under an incompetent system." You can also look at the very top echelon of the PTO and see the revolving top management of Commissioner in, Commissioner out, and believe that no enterprise could ever operate that way and be successful. So, my hope is that we will see good legislation passed. We will see balanced legislation passed and it will be supported broadly by all users: big, small, domestic, and foreign users of our patent system.

MR. MYRICK: I'm basically in support of the corporate concept, but I still have misgivings. Perhaps in Nancy's rebuttal she can clear up for me one point that I heard some months ago. I assume it's still true that a real management board with real power to control the CEO of the Patent Office is not a possible thing under federal legislation. Now, that's what we were told at one meeting. Who was it from the Patent Office that came to AIPLA that time, Bob?

MR. ARMITAGE: Brad Huther.

MR. MYRICK: Brad Huther. I believe that's what he told us, but if that's not correct, I'd like to have that clarified for me. In any event, what I'm getting at is that I think what we're doing in creating this organization is basically good. But, I also feel that we are commissioning the PTO Commissioner to raise the rates of pay of all the employees, and unless we find efficiencies to offset that, our rates are going up. Our fees are going to go up for all the services that the Patent Office provides. I think we have to face that as a certain reality. We are telling him to do it. That's the reason we are creating this body so we have to accept that that's what's going to happen. There is no competition for this body save for the very offices we just talked about as being so much more expensive than this body.

So, if the PTO compares itself with the Europeans or with the Japanese, then they're going to have very favorable statistics to justify whatever they do. I don't think we should go into this with blinders on that any advisory board, or whatever, is going to have the power to control what's going to happen to fees unless it is the Congress. I'm not at all sure we want to leave it with the Congress in view of the circumstances we have with trying to balance our budget in seven years. There are a lot of issues that are not resolved in my mind. I see in the Moor-

head Bill that the fees are supposedly access limited to the rest of the government. I'll be interested to see if that shows up in the final passed language of the act.

MR. KEEFAUVER: I played a small role in that IPO study because I had been asked by the previous commissioner to come in and help him think through whether or not we should have a private corporation. At that time, I was against it because it seemed to me the main issue trying to be solved was to get some person off his back who was giving him problems. I thought there were better ways to solve personnel problems. One could just wait for the passage of time, and one or both of them would have departed. But I gradually became a mild supporter of the concept because it seemed that there might be some advantages. At the moment, however, I'm more curious than thoroughly convinced.

Down to basics. I think, first of all, we need to put in some order and rather clearly state what are the problems we are trying to solve. Although I think Bob's study, which I need to revisit, perhaps details them in some degree. Is it just some general idea that getting the PTO semi-out of government would be good, or not? If we're trying to solve personnel problems, I recall talking to the government corporation people. Don't be too optimistic, because the bill is going to have enough hooks in it that the unions will operate pretty much as they do now, and you still may be subject to some degree to civil service and one or another federal laws relating to how you compensate people. So, to the extent that that's a priority, I think we need to be aware that, once Congress gets its hands on the bill, they could add additional bells and whistles. After all is said and done, you may be worse off with a corporation than without.

Second, I think we need to be clear as to the context in which we are looking at this problem. Initially, we were looking at it as: Is the PTO better in the Department of Commerce or in a private corporation? That has a given set of pros and cons. Now, as I understand it, we are looking at it more in the context of: Assuming that the Department of Commerce self-destructs, where should we put the PTO? Now, that raises an entirely different set of issues because now we're saying: Should the PTO be in the Department of Justice or in a private corporation? Well, I think we can more rapidly reach an answer on that one than we can on the first one, but I think we need to be clear as to the context of our

study.

Another point that was of great concern to me, because I spent a lot of time personally working on it, is: Who would be the spokesman or provide the principal input on making international patent and trademark policy? We felt we were very fortunate to have Mike Kirk's services. Mike Kirk, Bob, I, and others spent quite a few years trying to wrist wrestle the State Department to give up their predominate role in that issue. It took us quite a few years to move Mike up in the Chairs, if I can put it that way. I think we achieved a lot by restoring the articulation of patent and trademark policy to people that really understood it. So, I'm still concerned that with a government corporation, that policy making role would shift back into the Department of State, although the people in State currently are much more receptive to input. I can say that from personal knowledge. Again, they're not going to be there forever, and when they're looking at patent policy and trademark policy, they're looking at it in the context of a lot of other Department of State issues. I think the answer on harmonization and a lot of issues might be quite different in that particular stew.

I think it would be a mistake to look at this issue one way or another based upon what we may think of the present commissioner, primarily because I think that's short sighted. I don't mean to imply anything by that. I think that should be taken out of the equation, with one minor exception, and that is the present commissioner's tendency to become Commissioner of Patents and Trademarks and Copyrights. I think we need to be clear what should be done with copyright policy. Will that be the responsibility of this government corporation? Should it become an intellectual property corporation, not just a patent and trademark corporation? I haven't heard anything to that effect, but it seems to me that there is still some ambivalence about where the sources of policy in the copyright area will be. I don't think we should ignore that completely. My main point is that we need to know what problems we are solving and what context we are solving them in.

MR. BARDEHLE: Following what Bob Armitage has said, if I may just for a short moment draw your attention to the actual situation of the EPO. We are now fighting for better representation of the users, the payers in the Administrative Council. The Administrative Council is the governing body of the European Patent Convention, but it receives

decisions from the circle of the so-called head of delegations, to which we have no access at all. The profession that is the Institute of Professional Representatives is allowed to send one or two observers to some meetings of the Administrative Council, and that's it. They can speak there, but the influence is more or less zero. In a hearing before all delegation of the Administrative Council, I made the following comparison. I compared the situation of the Administrative Council with the situation of a company on shares with General Assembly, to which the payers, the shareholders, are excluded. That's exactly the situation of the payers, or the users, in the EPO system.

My conclusion is then: If it is not possible to have users with the right to vote in the Administrative Council, then you leave the EPO to people who make political decisions. When I look here at that bill, which I have seen for the first time here, there is Section 5, "Appointment of Members of the Advisory Board." It seems to me that these people, if I understand it correctly, are all political people, all political positions. People, at least in Europe, want and fight for a real representation of the users of the system with the right to vote, because they pay everything. Why should they be completely excluded from the decisions? In my view, it makes no sense just to give the Patent Office a new trademark as a commercial enterprise instead of having the users represented in any board which governs that enterprise.

MR. BREMER: Just a comment, and my comment focuses really on the Patent and Trademark Office management advisory board. I know Bob referred to it as a private sector management board. The word advisory bothers me. The point and counterpoint is laid out in the proposition that Dick made and in the recommendation that the Advisory Commission on Patent Law Reform made, whose report was also ignored. So, if you've got an advisory board, if that's what it is, it's one thing. If it's truly a management board, it's quite another.

To pick up on what Heinz said, I made a note: Although they seem to have taken care of the political party orientation, we would still be dealing with political appointments because you have to look at where the appointments are made. They're all at the political level. If we had input from the users of the system and could get people who have that persuasion or orientation, that is, the user's view of the system. I'm particularly looking at the private inventor input. You should have

someone representing the private inventors, the universities, and the nonprofit teaching hospital groups. The board should be expanded to a different composition rather than just looking at where those appointments come from, which I am convinced would be only political in nature. I think that's a factor. I would also think that you need some kind of oversight rather than to let the Office go out on its own. I think Nancy's comment about a Cabinet representation could be extremely important for that purpose, too.

MR. KONKOL: I'm not a public administration expert, but I want to just say that the proposal seems generally to be a very good idea for a number of reasons that Herb discussed. I think Mike Kirk in the AIPLA has also given a number of very good reasons for a government corporation for the Patent Office, and Don Banner, I believe, has mentioned similar reasons. I think I might add comments in two areas.

One relates, I guess, to what Leonard Mackey said about the personnel policy, as far as whether civil service status would continue. I don't know very much about that, but when I was a patent examiner from 1977 to 1982, my impression, at the time, was that considering the tremendous job that the Patent Office did, I thought it was amazing they did the job as well as they did. I thought the quality of the people was very high. I thought the examiners and supervisors were generally excellent. Since leaving the Patent Office, I've dealt with board members in interferences and appeals, and I've been very impressed with my experiences in that forum. So, I don't know what has caused all these problems lately with turnover. I know that when I was there, the pension system was very good, and I understand that under President Reagan that was significantly changed. So, that might be one reason. Another reason I think many very good patent examiners stay in the Office is for job security, perhaps at the expense of higher pay in the private sector. So, I don't think I would want to take that away. If increased compensation in certain parts of the Patent Office will improve performance, I agree with that.

But getting to another detail, Bill Keefauver mentioned the issue of who's going to be making patent policy, aside from the administrative management side of the corporation idea, and how will this affect patent policy? It seems to me, looking at this bill, the attempt is to increase the patent policy role of the Commissioner. It says here that he or she is

going to report directly to the President. I'm not sure I want the President to be worrying about *In re Hilmer*. I know there have been various other proposals, for example, the PTO reporting to the Department of Justice, and I can see that that is inappropriate because of the obvious tension there with the Antitrust Division. It was interesting to note that the Patent Office was once part of the Interior and State Departments and only in 1926 came under the Commerce Department. So, I don't know where the Patent Office should be in terms of how patent policy is set, but my concern is that this bill may backfire in that respect for the reasons alluded to by Bill Keefauver. I think if the Commissioner is a CEO who is supposed to worry about administrative matters and who on paper reports to the President, I think that he may have less of a role in the international arena than people might expect.

MR. KLITZMAN: I think there's a problem in the Patent Office that's been there for years. I was chairman of a quality examination committee for AIPLA for a number of years. Herb Wamsley was on that committee, and he will recall the number of meetings we had with the officials of the Patent Office. One of the things we focused on after many meetings was that there was a lack of supervision of examiners. When you talk about quality, and as you increase the amount of supervision to improve quality, you automatically impact productivity and immediately you get a response from the union—you can't do that.

There is another problem. If you increase supervision, many of the examiners have a higher rating because they're not supposed to be supervised. So, you have these conflicting interests. It seems to me that you have to have a commission outside of the Office itself that has some real say so about how they're going to resolve that type of conflict. We pinpointed the conflict to the Office. I don't know if the Office has been able to resolve it. The Office may still have that problem. It is a real problem that has to be addressed. It relates to the control that any group must have in the say so of the operation of the Office.

MR. WAMSLEY: This morning people were asking quite a few questions about what the bill means, how it will work out, or how it will be interpreted. It struck me that there really aren't clear answers to a lot of these questions. I certainly don't know the answers. On a number of the points that were mentioned, it's really impossible to insure that the bill

will work out the way you want it to work out. I'll mention some of those areas where everyone hopes it works out, but it may or may not. We shouldn't get too optimistic, because it's going to be a government corporation that still has no real competition. In the private economy in the U.S., I think the organizations that are really lean and mean are the ones that have competitors. No matter how well this corporation turns out, it's not going to be as lean and mean as the Union Carbide Corporation, Rodel Incorporated, du Pont, or 3M. Those companies have built-in incentives every day to innovate, to be as efficient as possible, or else they will die. The odds are that if this bill passes the result will be a net improvement over the way the PTO operates now.

There are some danger areas. One is the labor management area. Probably the most likely political opposition is from members of Congress who tend to be sympathetic to the government employee unions. This legislation could get amended in ways that would make it worse than no legislation. The Moorhead Bill, as it stands now, is pretty close to the status quo. It cuts back a little on the bargaining position of the unions. The version that's in the Reconciliation Bill is better from the management viewpoint. If the government corporation has to go through Congress as a stand-alone bill later, it's going to be open to possible amendments.

Another area of danger is the management advisory committee. How will that committee work out? I think people here agree, based on the comments, that a strong voice for users in advising on the PTO corporation is important. Unfortunately, the Administration Bill does not have an advisory committee. If there is an advisory committee, as Heinz was saying, will the people on that advisory committee be political hacks, or will they be real representatives of the users? With the members being appointed as in the Moorhead Bill by the House of Representatives, the Senate, and the President, it could go either way. In practice, this legislation will only work if the users become politically active and lobby to have their people appointed.

In the fee area, my personal view is that the fee-setting should stay with the Congress, where it is now. There's a lot of misunderstanding, I think, about the fee problems. There are two issues relating to this bill having to do with fees. One is the problem that has grown since 1990 when the House and Senate Appropriations Committees began siphoning

off the so-called patent fee surcharge money. In my mind that really has nothing to do with establishing the PTO government corporation. This siphoning off was something Congress never intended. The Appropriations Committee is taking advantage of a leak in the system. The money is leaking out, and the leak has to be plugged through some kind of legislation.

The other issue, which is a separate issue, is whether Congress should set the schedule for patent application filing, issue, maintenance fees, and so on, and have it capped as it is now, except for the ability to adjust for inflation, or whether that system should be repealed in favor of the PTO setting the fees. The Administration Bill gives the PTO carte blanche authority to set the fees. Personally, I believe the fees are sure to go up if the PTO is given that authority.

The final area where things might not turn out so well, or on the other hand, they might, relates to policy making on trade-related issues, TRIPs kinds of things, in the patent, trademark, and copyright area. Is the Commissioner going to still have a voice in policy making if we set up a government corporation? There are those who argued this morning that if you don't have a Cabinet level officer like the Secretary of Commerce to go to bat for the PTO, maybe the Commissioner will no longer have a policy making voice. There are arguments on both sides of this issue. The current versions of the bill don't really give us any assurance of how that will turn out in practice. Maybe somebody can figure out a better way to draft the bill.

I didn't respond to all the points that were raised. I suggest this group of experts should follow this issue over the next several months, because there is still time to shape this legislation.

MR. GRISWOLD: I just wanted to say something about the last topic. Since I'm president of IPO, I obviously support the Moorhead Bill. We don't have any rule, I don't think, but I do support it. I do wish, though, in the ideal world we could set this up more like a corporation in the private sense and have a board of directors that managed it, that was cost conscious, that was composed of non-political people, i.e., users, that would set the fees on a cost basis in conjunction with the Commissioner. I think that's the best way to operate something like this. I don't know whether you can actually do that in the world that we live in, but that, I think, is the best way. I think it's better than having

Congress do it or the Commissioner by himself. So, if somehow we could ever get to that, Herb, in my view that would be the best way to operate this organization.

MR. ARMITAGE: I just wanted to make a few comments, I guess in the form of rebuttal. This issue is exceedingly complicated. You have to fully understand this issue, understand almost all about how federal agencies actually work and how they relate to the executive authority, understand rules on conflicts of interest, and it goes on and on and on. I've always tried to look at this in much simpler terms and to look at this kind of a legislation as not being some revolution in the way in which the PTO will operate or some panacea, but rather an evolution. An evolution where you're making a series of what could well be discreet and independent changes to the way the Office operates. For example, if we did nothing else other than to create a private sector advisory board that would be representative of the user community and gave that board the ability to investigate what goes on in the PTO and issue reports with its own staff, would that give users of the patent system more of an opportunity to influence the PTO for the good? I answer that question in the affirmative. Would it be better for the Office not to be subject to procurement regulations under the GSA, not be under all the government housing regulations, which we now find out cost the PTO perhaps millions of extra dollars a year just to be housed in almost substandard quarters? The answer is yes.

As I tick through this bill, I add up the positives. I admit there are some negatives, but realize that we're going to have legislation as a package. In all likelihood, unless we don't get an advisory board and unless a couple of other things don't happen, we will form the basis really for making at least evolutionary improvements in the Patent and Trademark Office. I don't worry one whit about where the policy ends up. I don't worry about it for two reasons. The President of the United States conducts foreign policy on behalf of the government. If he decides that he's going to move all foreign policy and all IP policy into the White House and lock the State Department out and lock the Patent Office out, he can do so. Therefore, you can't, by legislation, control how the President makes policy. On the other hand, we know that the only people in the United States government who know how to run a patent office and know patent policy issues inside out, because they do

know how to run the patent office, are in the United States Patent and Trademark Office. I can't imagine a scenario, even if we end up with an Undersecretary for Intellectual Policy, under which the Patent Office will truly be shut out of what had become increasingly technical discussions about how to get patent offices to work better with one another and how to get economies from harmonization.

Finally, I'd like to make one pitch for the Patent and Trademark Office to be able to set its own fees. I've had a lot of discussions with Gary Griswold, and I've explained to him that I'm part of the user group of 3M products, and I'm disgusted with the fact that Post-it Notes, which are little pieces of paper with some inferior adhesive on them so they don't really stick to one another very well, cost as much as they do. As part of his user community, he needs to reduce the cost of Post-it Notes by 30 percent. However, Scotch Tape is different. Lots of people make good Scotch Tape, frankly, and I'm willing to let him get at least a 10 percent fee increase for Scotch Tape. The idea that the PTO ought to be chained to an act of Congress in order to rationally set fees I think is an unfortunate one. Also, we know if the Commissioner has the authority to set fees, and we know that there's a private sector advisory group that can make noise with substance behind it, that there will be checks and balances. We know that even if Congress today gives the Commissioner the authority to set fees, and if the Commissioner is irresponsible or unpolitical in doing so, then Congress will take the fee setting authority back. In my view we need a proposal that's comprehensive and provides the PTO reasonable management authority. We're well along our way there. I just hope our brethren at IPO share our desire for flexibility as we go ahead and hopefully finalize this legislation.

MR. GRISWOLD: I would appreciate your comments on marketing of "Post-it" Notes and "Scotch" Tape. We'll get you connected with our marketing people, but as I mentioned before, in an ideal world, I believe it would be nice to have the Commissioner and this advisory group set the fees. Our concern is that the world is not ideal, and we believe that the best process may occur through Congress to get this done. We're concerned about having the fees go up too much, but if we can figure out how to approach the ideal, then maybe we're on the same page.

MR. KLINE: A number of the points that Herb had expressed

concern about also concern me. Consider particularly the advisory group as stated in the Moorhead Bill. You've got six members appointed by the President, six by the House, and six by the Senate. Isn't that leading towards this becoming a political group? Also, it states that they are supposed to represent the interests of diverse users. That's a very broad term. It just strikes me that there are so many uncertain issues here. This has got to be approached very, very carefully. If not, I think, as Bill Keefauver said, we'll end up with a lot of bells and whistles hung on this and be sorry that it ever happened.

MS. LINCK: It's the Office's position that the advisory commission, appointed as it's going to be under the Moorhead Bill, violates the appointments clause, and it's unconstitutional. I believe the advisory board that the Office envisioned, which may or may not be part of the present Administration Bill, that's forever changing at this point, really envisioned a commission of users appointed by someone who would know who the users are and who could contribute in a meaningful way to the running of the Office. I believe we ended up with the Secretary of Commerce making the appointment. For administrative reasons it wouldn't be the Undersecretary or the CEO, but the Undersecretary or CEO would be the party that would know who in the user community could contribute and that would be the person who would recommend the appointments to the Secretary of Commerce. Hopefully, we'll end up there in the long run.

I did want to respond to a couple of comments that were made by Dick and one other regarding the Advisory Commission report. I do not believe it was scrapped by the Commissioner. In fact, I think we have pushed to get into place almost every single recommendation of that commission. In fact, we have credited the Advisory Commission with doing work in those areas such as 18-month publication and expanded reexamination, etc. I really don't believe there was any intent not to give credit. Obviously, when a different administration takes over, you can't expect them to buy hook, line, and sinker into a different administration's report. But, in fact, it was read critically, and adopted, not scrapped.

As to a management board, I think the comment had to do with absolute control of the Office by users which, of course, doesn't make any sense. The Administration Bill really put teeth into the Advisory

Commission's position requiring that the Office give consideration to any recommendations of the Commission. I have never seen a board more interested in being responsive to our users, in being committed to doing what the private sector wants done in Office, to the extent that's good for the system. We should be working together for a better system.

Given the policy making situation, being tied to Justice is impossible. I think we agree with IPO that Justice comes from a different angle when it comes to policy. I've worked with Justice, and antitrust is alive and well, as is the FTC. You see a division. You see the copyright and patent people on the one side of the table and the antitrust people and the FTC on the other side. So, tying us to Justice, I think, would be a big mistake. But I don't think it's a matter of what happens if Commerce goes away, rather, the question is: Will we be tied to Justice or will we be a private corporation? There probably is a different group that we could align with. I don't know what that would be, and maybe that's something for you people to think about. Maybe the Department of State, maybe that's a possibility, I don't know. Tying us to an independent copyright office would not give us the necessary policy making power.

IV. PRIOR USER RIGHTS

MR. KONKOL: I'm very pleased to be here, and I'm even more pleased to have a golden opportunity to participate in a frank discussion on the subject of prior user rights. Let me preface my remarks, if I may, with some suggestions on how to approach this subject. First, we know this is a very controversial subject right now, and because it is so controversial, I compliment Franklin Pierce Law Center for taking the bull by the horns and putting it on the agenda once again. I believe that this kind of conference can play a unique and a much needed role in helping to resolve such important issues or problems. This academic setting provides an excellent forum for civilized discourse and thoughtful discussion. There are other places for advocacy and lobbying, but I think this is one of the few places where simple civilized discourse among informed members and leaders of the profession can happen.

Prior user rights is also a very complex subject. I myself have

struggled with this issue over several years, and my thoughts on the subject have evolved considerably. So, I would therefore urge people looking at the subject to keep an open mind, to be willing to let their thoughts evolve and change, if justified. I think there are powerful arguments on both sides of the issue, the issue of whether to have prior user rights or not to have prior user rights. The major arguments against prior user rights is the focus of an excellent article written by Bob Rohrback, published recently in the *University of Baltimore Intellectual Property Law Journal.* His most powerful argument, I think, is that prior user rights would undermine the exclusivity of patents. As we know, the exclusivity of patents is almost sacrosanct among patent professionals.

On the other side, I've heard Karl Jorda speak very convincingly about equal rights for trade secret users. As a corporate practitioner, I quite agree that trade secrets are not nefarious or intrinsically inferior to patented technology. On the contrary, they should be encouraged. I think they are important to U.S. technological competitiveness, and I do not agree that someone who chooses trade secret protection over patent protection should merely suffer the consequences of his "mistake," if somebody else later patents the same invention.

So, there are valid and powerful arguments on both sides of this issue. We're talking about the fundamental interface between the rights of patent owners and the rights of trade secret users, and there is a tension there. There is no perfect solution. But we must achieve some kind of a balance and draw some kind of rational dividing line. I think one of the problems in reaching a consensus on this issue is that people may not appreciate that they are looking at it from an angle, in other words, from their own particular point of view based on their own experiences. It may depend on whether one works in a corporation, a law firm, or a university. Because the subject is so complex, it may also depend a lot on the analytical approach that one takes to the subject. Everything that someone says on the subject may be true, at least not false, but it is like the ten blind men and the elephant. Each sees a different part of the elephant. One concentrates on the trunk, another values the tusks, another is wrapped up in the floppy ears, but it is necessary for each of the blind men to communicate with each other in order for anyone to fully understand the situation. The same applies to the subject of prior user rights. It takes a diversity of views to get the full

picture. Let me provide some background information on this issue.

In the broadest terms, as I have mentioned, we are talking about the interface between the rights of patent owners and the rights of trade secret users. There is more than one way to create a balance between those rights. Prior user rights is one possible solution. Another possible solution is to keep the present law on the subject. Another possible proposal is the prior invention right. I saw another proposal handed around at the table, and I think that's good because I think there's a need for creativity in the patent law. It's not just a binary decision—U.S. law or European law. I think we have to fully consider the various proposals.

Just so we are clear on the difference between, for example, a prior user right and a prior invention right, this is how I would define them. A prior user right is based on commercialization of the invention by a trade secret user before a patentee's filing date. A prior invention right is based on prior invention, not necessarily commercialization, before the patentee's invention date, so long as the invention is not abandoned or the prior inventor diligently commercializes the invention. In both cases, the right is a non-transferable or *in personam* right to use the invention validly patented by another. The idea of a prior invention right was a major issue in the U.S. in the late 1970s and the early 1980s, I gather from published articles. Then, with patent law harmonization in full gear, we spent a lot of time talking about prior user rights, at the 1993 Biennial Conference, for example, but it was in the context of first-to-file. Now, with patent law harmonization on the back burner, you're talking about prior user rights under first-to-invent. I assume we are also considering alternatives such as prior invention rights under first-to-invent or any other serious proposal.

But let me digress for just a minute because I can see that we are going to need to accurately define our terms and make careful distinctions. Let me give three examples. First, as I've indicated, a prior invention right is critically different from a prior user right, but to a large extent they are similar. They can achieve the same goal. As another example, it has been said that we had a prior user right in the U.S. under Section 7 of the Act of 1839, but I think it's fair to say that it is not at all like the one being talked about in Congress right now. Third, I would submit that it is more accurate to say that we have under present U.S. law a de facto prior invention right than it is to say that we have a de facto

prior user right, and even that is only a rough approximation.

We need to define our terms in order to get a fuller understanding and a more accurate picture of what the law has been, what the present law is, what the law should be, and what the law would be under various proposals. For example, there seems to be confusion as to whether *Dunlop Holdings Limited v. Ram Golf Corporation* is good law. This was a 1975, 7th Circuit decision that involved an undisclosed new polymeric material, Surlyn,™ in a golf ball. The court found that the patent was invalid because of the prior public use and prior invention of the first inventor, who kept the invention as a trade secret. Some people think *Dunlop Holdings* is an aberration. I did a Lexis™ search, and I found out it was cited 18 times, sometimes on this very issue. Also, I should mention that within the past year it was cited favorably by the Federal Circuit in *Checkpoint Systems v. U.S. International Trade Commission.* Citing *Dunlop Holdings*, the court stated, "The evidence clearly demonstrates that the inventor endeavored to market his invention as promptly and as effectively as possible." *Dunlop Holdings* is an example of a secret, non-informing use of an invention as patent invalidating prior art as distinguished from a secret use, for example, a secret process of making a commodity product in which the invention is not distinguishable in the final product that is marketed.

What I'm getting at is that *Dunlop Holdings*, assuming it's good law, speaks for a de facto prior invention right in the U.S. to some extent. I think, in practice, a patentee will likely refrain from suing a prior inventor/trade secret user because of the risk that the patent would be invalidated under §§ 102(a) or 102(g) as in *Dunlop Holdings*, and particularly, as it may be difficult to prove that the invention was suppressed or concealed under current law. I know of no case where a jury or court shut down a manufacturing plant of a prior inventor. That is not to say that trade secret users are entirely protected under present law. But to a large extent, a de facto prior invention right may exist. This is important to recognize in order to: (1) evaluate the need for a prior user right, statutory prior user right or even a statutory prior invention right, and (2) to accurately analyze the differences between present law and the various proposals as a necessary analytical approach to determining what makes most sense economically and as a matter of fairness.

Let me add three more thoughts, and then I'd love to hear what

others think on this subject. First, it may help to think of both prior user rights and prior invention rights as an iceberg, without any negative connotation intended. Consider the major part of the iceberg below the water as those trade secrets that have existed for some time and which is the accumulation of all trade secrets that are still in use and have been used for more than a few years. Prior user rights and prior invention rights are identical icebergs in this respect. Prior invention rights and prior user rights differ at the tip of the iceberg with respect to those trade secrets that were recently invented or recently commercialized. Second, assuming *Dunlop* is good law, then the issue of prior user rights or prior invention rights becomes primarily a matter of process technology. In other words, if *Dunlop* takes care of non-informing uses by trade secret owners, then the only remaining or the primary concern would be process technology. So, I believe that in order to justify either a prior user right or a prior invention right, we need to think in terms of process technology.

Relevant to this issue is, first, whether there's adequate patent protection for process technology outside the U.S. There's a very good article in the *American University Law Review* by Alan Wright in 1994 on this subject. Secondly, it's of relevance whether it is possible to effectively prevent products made by infringing processes from entering the U.S. under 35 U.S.C. § 271(g), and there's a good article in the *George Washington Law Review* in 1991 by Glenn Law on this subject. If many process patents are not adequately enforceable on a global basis, then a prior user right or a prior invention right makes more sense as a needed alternative to patenting. Third and finally, to confuse the matter a little bit more, let me add that if we did have a statutory prior invention right, *Dunlop Holdings* could be statutorily overruled. This would not be the case with a prior user right. We could go to a definition of novelty and public use consistent with European patent law where prior art would have to be truly available to the public in order to be invalidating. Prior art that was non-informing would merely form the basis of a prior invention right, so rather than undermining patents, a prior invention right might serve as preventing their invalidation as in *Dunlop Holdings*. In her fine introduction to the subject of prior user rights in 1993 at this Biennial Conference, Sylvie Strobel made reference to the difference between novelty in Europe and the U.S. as of underlying relevance to the

prior user right issue. I believe that by eliminating that difference, requiring prior art to be "informing" or according to EPC terminology "available to the public" and, in combination, by providing a prior invention right, then the dilemma that courts might potentially face of having to decide between either invalidating the patent of the inventor who disclosed the invention or shutting down the plant of the first inventor who disclosed the invention would be avoided. So, let the discussion begin.

MR. ARMITAGE: Chris began by making a comment that this is an issue on which I think he said he had struggled and had thoughts evolve. I need to make a confession to begin the discussion here, because this is an issue on which I had struggled, and my thoughts have evolved. In particular, in 1982, I published an article in the JPOS, which it was then known, which proposed that the United States adopt a system of prior invention rights. Fundamentally, it was precisely the concept Chris was talking about. I have to admit that I was younger then and vastly less wise, I hope, than I am now. As I now reflect on what I wrote in 1982, it was a totally unfortunate and unworkable system for a number of reasons.

First of all, if you're going to enjoy this prior invention right, you need to know what the invention date is of the patentee, because if you don't know what the patentee's invention date is, you don't know whether you even have the right. Therefore, in 1982 I said that this was no problem. We will simply create a simple administrative proceeding where we will access whether or not you're entitled to a prior invention right. In that article, I suggested that the patent interference system was in fact the ideal model of such a proceeding under which we could determine whether you should be entitled to a certificate of prior invention.

Now, Chris talked a bit about the tip of the iceberg difference between a prior user right and a prior invention right. The tip of the iceberg difference is that with a prior user right, you don't need an interference proceeding. You don't need to assess relative dates of conception. You don't need to assess whether there has been corroboration. You don't need to assess whether there's been reasonable diligence. You don't need to assess whether the doctrine of simultaneous conception and reduction to practice applies. You don't need to assess whether there has been an actual reduction to practice including a demonstration

of utility, and you do not need to assess whether after that reduction to practice there has been statutory abandonment, suppression, or concealment. Instead, under a prior user right, you look at the date on which you began your work. You look at the filing date on the face of the patent, and you basically decide for yourself whether you've begun work early enough or not.

Now, as unfortunate as that publication was in 1982, of course, it becomes vastly more unfortunate on January 1, 1996. Because on January 1, 1996, we will fully adopt as our date of invention the date of invention wherever in the world it occurred. And so, in effect, prior invention rights will be wide open to any inventor who has any set of proofs anywhere in the world and will be able to claim that right in the United States. Prior user rights, however, will continue to be what they have always been, and that is national rights. In fact, nationalistic rights. They will require prior commercial use in the United States. So, I apologize to the profession for my impassioned plea that we adopt prior invention rights, and I make this official public retraction today.

MR. WITTE: As many of you may know, I am opposed to prior user rights on the classic grounds that it unreasonably erodes the basic exclusionary right of the patent. But sometime ago, I decided to go along with prior user rights because I saw that as a key element in achieving the first-to-file system, and I'm still of that position. So, I will support prior user rights for that purpose if it goes along with the limitations that the Advisory Commission report had on a number of things. Although, I would have preferred that there be a possibility of royalties, which may still be there if it's deemed as an equitable remedy for the prior user, and also to cut back or eliminate the preparation for use. But I'm willing to accept that. For prior user rights as a stand-alone concept, I still have my basic problems. I see it primarily as a defensive right or protective right for the prior user in process technology. The arguments in favor of prior user rights are much stronger for process technology and the trade secret elements that go along with it. But a prior user right, as drafted, would extend to all patents, including product patents, and there my concern about prior user rights is greater.

Stepping back, I see prior user rights as this process patent remedy, and the result of three things. One is the deliberate decision to keep process technology a trade secret. The next is the argument that

it's too much trouble to try to recognize all the possible inventions that somebody might come along and get a patent on. The third one is cost. Well, in response to the last two, I say if you're really worried about your ability to continue practicing your secret process technology, and if you don't want to take the trouble and money to get a patent, then publish. This is a classic defensive maneuver that can avoid the need for prior user rights. You protect your right to continue practicing by publication, and I think there are ways to do that that are fairly easy without attracting attention to a particular company. You publish anonymously, and you put your preferred process in with a lot of other disclosures. You establish a defensive protection, but you can still kind of retain the trade secret advantages. Now, if it's important technology, and you deliberately decide to keep it a trade secret, recognizing that you might be able to get a patent, well, I look at it this way: The risk for the trade secret decision is that somebody else is going to come up with the same technology and either patent it or also use it as a trade secret is about the same risk that would result if you published in the way that I described, with the concealment.

MR. GRISWOLD: I'm certainly in favor of prior user rights and not prior invention rights. The prior invention right does not provide certainty. It requires that the person who has done these acts talk to and deal with the patentee. That requires, then, that a disclosure of this information be provided to the patentee, and indeed there is some proceeding where that takes place. It puts the purchaser in a position where he as a businessman has to go out, go to the other party and find out whether or not he can go forward with his business unencumbered by this other patent or not. I don't like that disclosure. It's particularly bad for small businesses. The reason I say that is because I've been involved at 3M in buying many, many small businesses. We had to clear up issues like this before we would acquire the business. That would require the person who's operating this trade secret process in a small business to go to the patentee before we would acquire the business. So, I'm against anything that reduces the alienation of small businesses.

One of the reasons that people don't want to go to the patent system relative to processes is the policeability of the patent. If you can't police the patent here sometimes, and you can't police it abroad, then even if you get one over there, you wind up disclosing the technol-

ogy, and people use it to your detriment. I don't think we want to put our people in the United States in a position of disclosing their process technology or manufacturing equipment that's used to make things. That's confidential. I don't think we want to force businesses to disclose that and put at risk our manufacturing jobs in the United States. Now, other countries have seen fit to protect their domestic manufacturing industry by providing prior user rights and providing certainty to their manufacturers. Somehow in the United States, we can't come to grips with the idea that that is important for us, despite the fact we talk about balance of trade and all these kinds of issues. We put ourselves in a disadvantageous position when 45 percent of U.S. patents are granted to people from outside the United States. If we don't have a prior user right here, they can shut us down; whereas in their country, with our patents that we have in those countries, we can't shut them down because they have prior user rights. So, I think we've put ourselves in a bad position.

The final point I will make on this is that a prior user right is a nice balance. It protects the person who has invested, put the product on the market, and provided good to the public by doing so. It also protects the person who comes along later and files a patent, gets a patent, and provides a disclosure. It gives them the benefit of having a valid patent that is useful against others than the prior user. So, it's a nice balance of the interests, and that's why we support it.

MR. GHOLZ: I make my living doing interferences. This is close to my heart, obviously. I am dead set against prior invention rights and in favor of prior user rights. I'm against prior invention rights because they are so close to interferences, at least traditional old fashioned interferences, which are priority contests. There are fewer and fewer of these today, but the interferences that are priority contests and the kind of proceedings that would be necessary to establish prior invention rights are enormously socially dysfunctional. They're very expensive in terms of what you pay outside counsel, but I think they are even more expensive to society in terms of taking some of our most productive inventors out of the laboratory and putting them to work reliving their past. It may be fun, and it may be entertaining, but it isn't good for the Republic. To have a prior invention right, you'd have to have a proceeding, which might have a different name but, by God, it would be an interference. That's what you're doing. That's what you're

trying to establish, and I think that the sooner we go to first-to-file, the better. That would get rid, not of all interferences, but of priority contest interferences. We don't want to recreate this monster via a prior invention right.

On the other hand, with prior user rights, there are pros and cons. I don't think this is a clear call, but the companies that have commercialized inventions, that have really put money into either actually commercializing or getting close to that point, the folks that are going to get prior user rights, have contributed. There is an economic value there to be protected, and it seems reasonable to me that that economic value should be protected.

I don't think that the cutoff date should be, as is proposed by most, the filing date of the application. I think the cutoff date for prior user rights should be the issue or publication date. If we go to published applications, the cutoff date should be the date of publication. Under our current law, it should be the date of issuance of the patent because you have the same risks of companies getting blind-sided while the application is secret, as you do with companies getting blind-sided prior to the filing date. But there you've got a social value that needs recognition, or at least can legitimately be recognized. The social value for an inventor who never gets around to trying to commercialize is, to my way of thinking, minimal.

MR. LOWIN: Mostly, I have questions about prior invention and prior user rights. The concept of going to a publication date, while it seems fair, on the one hand, because it gets published, you know what it is, you knew it before then, great. But what about intervening scientific publications that disclose the invention. Many times our inventors are ready to publish the day after they file, and you disclose the invention. Are you leading the public to believe they're free to do this? Are you going to lose your rights because you published before the application got published?

I have wondered for some time whether there is already a prior invention right in the U.S. patent laws. That would be § 102(f) because if somebody else invented it first, they're the first and true inventor, and the subsequent applicant isn't and is therefore not entitled to the patent, at least the way I descriptively read that section. So, do we already have prior invention rights, and is that an appropriate defense as between a

later applicant and the real inventor?

I get concerned about the impact of a prior user right on different industries. In that case, I have to speak about the pharmaceutical industry. This is an industry where many different inventors are stimulated by the same developments. They're making preparations for commercialization of many of the same inventions at the same time. If all of them are going to be allowed to practice it because they were making those preparations, then it will defeat the entire idea of exclusivity. I admit I'm not familiar enough with how this is going to work, but that's a concern it raises for me.

The last concern is what kind of a right is a prior user right going to be? I get the feeling that you can't license it, but does that mean that you can't transfer it to a successor in interest of your company? Does the owner of a prior user right all of a sudden become a non-marketable organization even if they want to be taken over?

MR. SMITH: Dick Witte and I debated prior user rights a great deal during the course of the Advisory Commission deliberations. I have two or three comments, but I want to speak first about the product-oriented patent side of prior user rights. Dick and I come from completely different industries. The industry that I represented at IBM was one in which products typically involved the use of hundreds of inventions. There wasn't an equation between an invention and a product. Many of these inventions were more or less of modest character and not really worth patenting for protective purposes. Filing a patent application would be done for defensive purposes, if it was done at all.

Prior user rights, as I see them, are an absolutely essential adjunct to a first-to-file system. Prior user rights would provide some relief for the corporate manufacturer who didn't want to file patent applications on all the inventions in order to be the first to the patent office to protect his ability to commercialize those inventions. So, I disagree with Dick that the prior user rights are not essential with respect to product or inventions.

Now, speaking of prior user rights with respect to the current first-to-invent system, I'm in favor of the bill that is currently before the Congress, but I am not as adamant about the need for prior user rights in the current situation because we still have 35 U.S.C. § 102(g). People who have made inventions, even if they didn't file, if they were in fact

prior to the invention of the patentee that wants to stop them, have the capability of protecting themselves. So, prior user rights are not quite as essential today, except with respect to secret processes. I think there they do currently supply a very important relief for the trade secret process owner. I'm somewhat concerned about the existence in the present bill of the one year period prior to the filing of a patent application during which prior use cannot be created. I think that's a little bit harsh, but as I say, I'm not unduly concerned about it because I still have 35 U.S.C. § 102(g) available to me if I was indeed the first inventor. I worry though, that if the bill gets passed with that one year period in it, and we someday, let's hope, get to a first-to-file system, then we're going to have a problem with that one year period. We're going to have to reinvent prior user rights in an environment where it's going to be a great deal more important. I fear it's going to be difficult to get rid of that one year period and that situation.

MR. BUDINGER: The current bill before Congress, and I think there's only one, is H.R. 2235. I've got a few copies of that bill that I'll put out here for those of you who didn't get a copy of it. That bill really is a very, very restricted form of prior user rights, and we've heard about many of those restrictions already.

I would like to make two comments. Chico asked if the publication date should be the date before which commercial use would establish a prior user right. The difficulty with that is that it opens the door for abuse, particularly against small inventors or university professors who want to practice or experiment with their invention before they file their patent application. These inventors often use the full one year grace period. If we allow someone to acquire a prior user right by establishing use prior to the publication date, there would be a tremendous opportunity for fraud. It would effectively eliminate the value of the one year grace period because anyone who noticed the invention could establish his right to use it simply by getting into production before the patent's publication.

One of the things that the drafters of the bill tried to work very hard to do was to keep people from being able to establish a prior use based on copying somebody else's invention and subsequent patent. As a patentee and one who is very concerned about the little inventors, the latest date on which a prior use could be established was a very important

consideration. The greatest consensus formed around commercial use and public benefit prior to the application date, and even then the user must be able to prove he had the technology a year before the application date.

The second issue is whether the prior user should have to prove he was a first inventor. I think Bob did a good job of highlighting the problem with this approach. He underscored that particularly for the little guy the cost of having to prove first inventorship would be just outrageous. If a small entrepreneur who had a legitimate prior use were to be required to prove inventorship, the cost would mean that a prior user right or a prior invention right would probably strongly disadvantage the little guy. That was something we tried not to do.

MR. BREMER: I couldn't help but think of Yogi Berra's expression, "this is deja vu all over again," because many of us here had this dialogue before. Generally, from the university perspective, I agree with Dick's approach. What people have to keep in mind here is that a prior user right constitutes a serious and really undefinable diminution of the premise and the promise of the patent grant. Gary talked about the certainty that his company would have for process protection, but what this means is that there is no certainty attaching to the right to exclude, and that's the trade-off. You would be losing what you are promised under the patent grant, which is the right to exclude others from practicing your invention. You will not know at all what the ability of your right to exclude is. Looking from the university perspective and the licensing of fundamental inventions, the loss of the right to exclude really shapes the incentive that a company might have to license. It diminishes the incentive for licensing. That is a major concern of the university sector. So, in principle, the sector is against the prior user right approach, unless there are some real precautions taken and some definitive limitations imposed on the prior user right.

Under the first proposals for prior user rights, which were much broader than the bill that has been introduced and to which Bill Budinger referred, it's the perspective of the individual, company, or the non-manufacturing entity that dictate opposition or support. If you have a manufacturing entity, individual, university, nonprofit entity, federal laboratory, or a small business, the perspective on prior user rights is different for each of them. Even though it is touted as an equitable solution to balance trade secrets versus the patenting function, keep them

both in the picture, which we all admit is okay. For non-manufacturing entities, which includes universities, government labs, other nonprofit organizations, patent management organizations, institutes, teaching hospitals, and most individuals, prior user rights have no value or very little value. The right is not an alienable right. Therefore, those people tend to be disenfranchised by having a prior user right in the system. I think that agrees with Dick Witte's approach. We had discussed this, and I believe we agree on those elements. It would be a compromise position to accept the bill that's currently pending. Because it has some definitive limitations, it is one that perhaps would be acceptable to the university community. If that bill could be adjusted to take into account the effort that goes into the fundamental licensing situation, where a great deal of effort and money is spent in the patent and licensing function, and to recognize those activities as "commercial" development, which would fall within the purview of the bill, it would be wholly acceptable. I think that rather than belabor the point, those are the fundamental differences that we see.

MR. COLEMAN: I'm really just seconding many of the remarks, but I'll try to put a more practical IP management perspective on the discussion based on my experience. For example, you may have a very risk sensitive patent counsel and risk sensitive management of a high volume product manufacturer having a big investment in machines and processes. But, let me step aside here and say I'm not that convinced of the wisdom of prior user rights for products for probably the same reason you mentioned. However, for machines and processes, if you have the risk sensitive patent counsel and their respective risk sensitive management, you're going to double or triple the size of the patent department and the expense for patent prosecution. Without some action that clears up the uncertainty that presently exists in the law, and if you don't have some type of prudent legislation to clarify this uncertainty, then these undesired increases in the expenses of the IP system will arise. On the other hand, if you have a risk tolerant patent counsel and management, which I will confess was the case I was associated with, then you can keep down patent department costs by advising others to just take the risk, which is minimal, in view of the reported cases, or absence thereof. So, let's clear up prior user rights for at least processes and machines.

MR. WELCH: I'd like to comment a little bit on what David said about the synthesis of chemical compounds and whether that would be commercialization under a prior user right. Certainly my understanding of how the prior user right would work is that it wouldn't be the kind of commercialization that would qualify as a prior user right. I think the nature of the industry is such that you would be on file with the patent application long before the commercialization activity is really underway. I certainly think that the prior invention right would be a problem due to the uncertainty that it would engender and would be a disaster in that particular situation.

MR. KEEFAUVER: When I finished my term on the Advisory Commission, I ended up with a ton of paper like everybody else. I had a stack on computer software, much of it duplicate letters. I had a stack on cost and complexity of litigation, which I co-chaired. I had close to 29 issues on another pile. The final pile was on prior user rights because it was one of the more contentious issues. To quote myself from the transcript of the 1993 ABA-PTC section meeting, my own thinking on this whole issue has evolved over time, putting me in league with some other prior speakers. It's my opinion that the opponents and the proponents of prior user rights both overexaggerate either the benefits or its evils. I still think that to be the case.

The opponents put the patent system on just too high a pedestal. Certainly, I put it on a high pedestal, but we do have at least the Supreme Court saying that trade secrets are a valid way of protecting intellectual property. There's bound to exist some sort of a boundary problem, and it exists right at the place that we're talking about. After hearing all the discussions, and we exchanged many, many opinions on this issue, we did come up with a position. I later put in a resolution which we debated at the annual meeting in 1993. I would just like to tick them off. A lot of them have been alluded to, but I thought it might be interesting to mention them.

First of all, I agree, we're not in favor of prior invention rights. Second, we're talking about the context of a first-to-file system. Whatever prior inventor rights might exist in our present system, let them evolve any way they can. So, we're talking about first-to-file. Third, we said the prior user rights should be in the nature of a personal defense. Fourth, the activity should have begun before the earliest filing

date to which the patent is entitled. Fifth, there could be no derivation. Sixth, and this was somewhat controversial, we decided it should have taken place within the territory of the patent. In other words, if you're asserting a U.S. patent, prior activity in Germany or somewhere else would not count. Seventh, the prior user had to be a user. He had to have demonstrated operability and taken significant steps toward commercialization: no notebook entries, no mere ideas floating around, no general plans to market something. Finally, the activity should be available only to the party performing the activity in which the defense is based, be nonassignable and nontransferable except for that part of the business to which they pertain.

I think many people agreed after all that distillation that this was a fairly restricted prior user right; so, it wouldn't raise all the concerns which Howard Bremer and others had validly pointed out came out of the university community. Incidentally, I think this incremental bit of uncertainty that prior user right adds is just that, it's a small increment. A patent is not incontestable. You go out there to enforce a patent, and you will get a lot of surprises. So, I think this adds a very tiny increment to that degree of uncertainty.

I think this right would protect those concerned about investments where they need protection most. I'm pleased at the way the discussion has gone. It's much more harmonious than many discussions we had in our early days at the Advisory Commission. So, I think all has evolved. I think it is a key element of a first-to-file system, and I fully support the way the Advisory Commission finally came out.

MR. BALMER: I'd like to step back and ask why do we have patents in the first place? The Constitution says patents are there to promote the progress of the arts and sciences. What does that mean? One can say that means promoting innovation, the commercialization of new products, the lessening of cost to manufacture goods, and improving society. If one starts off from that standpoint, that throws a different light on the way one would look at the prior user rights. The objective is to get the invention commercial, so it benefits society. If it doesn't get commercialized, there's no benefit. If it gets commercialized, the reward ought to be going back to the innovators. Patents provide the kind of vehicle to reward innovators. Certainly there are rewards that do not require commercialization, but there are only a few Nobel prizes given out

every year. So, it ought to be the shared common interest of large corporations, small companies, mid-sized companies, universities, and independent inventors to get the inventions on the market—to complete the innovation process.

Prior user rights debates remind me of my wife's cat. I've got a cat at home. I'm not really proud that I've got a cat at home, but I've got a cat at home. When the cat's playing with me, I dangle a little string in front of her, and I can take away the toy mouse without any problem. The cat gets distracted. We ought not to be distracted when discussing prior user rights. The real target is to get a return on intellectual property. If the patent can be invalidated, then no return will exist. I think we've mentioned here before, that there is a risk that a patent is going to be invalidated by the earlier use, albeit in secret. Also, a particular invention does not reside by itself. There are often other technologies required to commercialize a technology. If someone makes an invention on making a way for making a particular pharmaceutical, then there are going to be equipment inventions. There are going to be a plurality of things that are required in order to get this new pharmaceutical on the market. If a patent exists in those ancillary technologies, then commercialization may not happen, and no reward will be reaped by the inventor.

Keep an eye on the commercialization target, it's just as much to the benefit of large corporations as it is to the individual inventor and the licensing university to assure prompt innovation. Get the inventive new product or process on the market, so it benefits society at an early date, and the rewards from the marketplace will be forthcoming.

In summary, the patent owner does not want to have a prior use defeat the patent, as is the case now in the U.S. If a patent held by a university is invalid over a secret prior user, the patent owner gets no reward. Further, the patent owner wants the invention commercialized to generate the sought-after reward. If that commercialization can be thwarted by a later issued patent, then the original patent owner loses. Prior user rights can benefit the patent owner by enhancing the certainty of validity over secret prior use and by enhancing commercialization. Society benefits because to obtain prior user rights, a race to commercialization is promoted. The small business, the licensee, or the large corporation that commercializes a patented invention can continue

commercial activities even though a later inventor obtained a patent on an ancillary technology used by the small business, licensee, or large corporation.

MR. BARDEHLE: First of all, I want to assure you that we have, at least in Germany, and I think in other European countries, really no problems with our prior user right. We could not imagine giving up that right. We consider it justified that a company keeps something, particularly processes, secret and doesn't want to go to the patent office to have the invention published despite the possibility that somebody else might get a patent. We consider that completely justified, and there seems to be the same feeling in an article by Chris Konkol. I confess that I really cannot distinguish between prior invention rights and prior user rights because Konkol says in that article a prior invention right may be defined as a non-transferable right of a prior inventor to use an invention patented by another, even if the prior inventor has kept the invention as a trade secret. If he kept it as a trade secret, it's my view he used it, or at least he had the intention to use it. So, the difference to our prior user right is nothing.

The intention of use in our prior user right does not require the actual use of the invention because under normal circumstances, if used, it is in the public domain. When you sell something, it becomes prior art. But if you keep it secret, it's a different situation. This seems to be the prior invention right, but we consider that a prior user right and live with that because we think we need it. Of course, all this refers only to the first-to-file system. Whether you need a prior user right in first-to-invent system, I would say I cannot judge that, maybe not. I can't judge that given only my knowledge and experience with the first-to-file system.

These cases happen very seldom. This prior user right is not really a daily problem, so this problem should not be exaggerated. It works perfectly well. Of course, you have to prove what you have a prior use, and this is on the basis of documents, affidavits, or whatever. It may not go so far as you do in an interference, but in any case, you have to provide something to prove that you have been in possession of the invention. There is a slight difference in France. They have the so-called *propriétée personelle*, which is a personal property without intention to use. I confess I have not yet had one case where I have

really seen a distinction between the *propriétée personelle* and our prior user right because with *propriétée personelle* there is always the intention of doing something with the invention. On the other hand, somebody might make an invention earlier, but keep it secret because he doesn't consider it a commercial subject. Years later, he sees the patent, and the patented product as a very interesting commercial product. When he then says, "I did that years ago," and wants to come back and claim a possible right of prior use, it would have been lost because he gave it up. He may have woken up only in view of a commercial success of another party. If there is a distance of some years, this right of prior use would disappear. Hans Goldrian can confirm that we live very well with the concept and would never think to give it up. So, from our point of view, we can only recommend it.

MR. RINES: Bill Keefauver talked about unanimity, but I'm not going to give you any unanimity. First of all, except for Bill Budinger, and I may be wrong, and I apologize if there's somebody else here who fits this category, I don't see anybody here that's an inventor, who started his own company, who makes his payroll, who has to get his product out on the market, and who has indeed to interest people in buying that product before his company can get launched. I see a group of lawyers. Now Bill, I love you, but your statement that first-to-file is a wonderful thing for the little guy, too, because it takes away the cost and it takes away these terrible interferences from the little guy. Oh, look at all the costs for these terrible interferences. But, what does the little guy say? Not you guys. What does he or she say? Our polls show, and I'll defy anybody to tell me I'm not telling the truth, that the independent inventors, the small entrepreneurial company groups in this country, are about 90 percent opposed to first-to-file. Why? Why? If it's going to take the cost away, it's going to take these terrible interferences and the hiring of lawyers away. Why don't they want it? Why? Who are you to be speaking for the independent inventor? Where is he or she here? I'm an individual inventor. I've got four companies going. I know what it is to make a payroll. I know how I have to launch a product. You guys don't, for my kind of a situation. I have to go out and use that one year leeway I'm given in the United States. What a fantastic concept that lawyers, more brilliant than what we have today, created in this country. First, two years, now one year. Try it out in the marketplace. Get the

bugs out of it. We're not going to penalize you. We're going to let you file your patent application within that year. Damn it, we need that year! We're not a giant corporation. We're not people with big marketing. We have to take chances. We have to build that product. And what happens when we put it out? We find out the customer says, "Nah, that's not what we want. No, if it did such and such we're interested." So, we have to go back and change it. That's the way the seed corn works. That's the way most of your companies were founded, by that kind of an individual.

We used to have lawyers in this country who tried to match the real requirements of that kind of innovation to the law. That's why we have the one year opportunity to market or to try before jumping in the patent office. We used to have a legal system that said don't hurry into the patent office. Come in with a careful and commercial product. We weren't penalized for it. So, when you tell me all the bad things are going to go away with first-to-file, I say to you, yes, if you want to disenfranchise our American groups that do not exist anywhere else in the world. Your precious EPO, Heinz, and I love you, Japan, and everybody else—are they even beginning to match the innovation that America has done and is doing? Look at the prolific invention that comes from our groups that don't exist in your country or your world, namely, extensive independent inventive groups, large numbers of small-entrepreneurial companies, large numbers of groups springing out of the universities that give that freedom in America to their inventors to do this, extensive university innovative and licensing programs that exist practically no where else in the world.

So, why the devil do you want us to wear their uniform and disenfranchise that whole group? If you, the large multinationals, were the only ones, I'm with you. If you decide you're going to have first-to-file, we'll find a way in this other community. And I'll tell you, it will not be the patent system. We'll hide our secrets. We'll obfuscate. We will not tell you our technology. We will rely largely on contracts to do business and tie everybody up as tight as we can if they want our technology. We'll go the opposite direction from the very purpose of the patent system and Article 1, Section 8 of our Constitution. We're not going to come, I'll tell you, and disclose our inventions by being suckered into filing a provisional application. By the way, Nancy,

where's the "harmonization" with that? How many countries have the provisional application? And you're talking about "harmonizing." Now, what I want to point out to you is if you want to do this, we have no control. We'll organize the inventors groups. They're trying to get to the Congress. But have you ever found out why? Why do you have the nerve to try to speak for the independent inventors and the entrepreneurial inventors and the university groups? We have a university person here, and he tells you what their problem is and what prior user means or doesn't mean to them. If you want to ignore us and not try to find some kind of a compromise so we can live in the way innovation really happens for the little guy, well, you'll do it. We'll survive somehow. But look at the damage that you're doing to the system, at least in so far as our independent and entrepreneurial community is concerned, a community that does not exist in Japan, does not exist in Europe, and does not exist anywhere else in the world.

Next point, the statement was made "Let's try to have complete innovation as fast as possible." I want to take issue first with one thing. Maybe I'm a lousy lawyer, but I have never heard the Supreme Court say that the right to protection of trade secrets is the same as the rights of a patent. I never saw that anywhere. If you've got a contract with somebody that's going to respect the trade secret or somebody that tries to steal the trade secret, that's one thing. But when it's against the public, the trade secret has no rights. It never has. What are you giving them rights for? They're making the election. Sure, someone having a trade secret has a right to be sure that their employees don't steal it or that an employee doesn't come and give it to somebody else. But this country decided a long time ago that we did not want things left secret. Patent means *pateo* in Latin, open up. What was the purpose of Article 1, Section 8 of the Constitution? Now Bill and I have had long debates on this. And if you're going to have a prior user bill, and I pleaded with him not to use that word, I think his is the least objectionable bill, obviously because it has some of the things in it that I felt might make it real and might make it fair. But if you're going to take that now and try to open it up as if you had a first-to-file system, I'm not sure even Bill would support it any longer. But I've got to say to you, the small people want to do the same thing, get to the market as fast as possible.

Bob Armitage, you said a little while ago, something about this

cockamamie stuff about continuations-in-part and all this sort of thing. You notice who the submarine commander is of these submarine patents—the United States Patent Office. I'm in my fourth continuation application in a current situation with stuffy examiners who shut me off after one response to the search, because they're after the money of continuations to support their institution. I'm not trying to delay patents, but I can't work, particularly in some of these advanced fields, with uneducated and uncooperative examiners. They keep shutting me off, pay a new fee, continue the application. The next thing you'll know, I'm going to be accused of delaying patents.

Now, we want to get to market, and we want to get there fast. Do you know what our batting average is? Five to nine years, not after the application filing date, but after the grant of the patent. That's the average that the small independent inventor and small entrepreneurial company. That's how long it takes them to sell the first product and start to get in the black, five to nine years. And in some areas twelve to fifteen years, particularly where there's breakthrough technology.

So, if you want to sit here like lawyers and talk about bureaucrats harmonizing and wearing the same uniform, go ahead, but remember what you're doing. You're killing a great system and the work of earlier great legal thinkers who gave time for the little guy to be able to participate in this process. There must be ways to compromise. So far as I'm concerned, I'm willing to compromise on Bill Budinger's bill on prior user rights because it prevents fraud, because it's very restricted to a case that I don't think is going to damage a lot of independent inventors or university people. It's restricted to a company that has been making something and has not chosen to share with the public how it does it. All of a sudden somebody in a foreign land, probably, reinvents the process, and this company sits in fear that they may be sued and stopped.

I invite your attention also to this new handout, a proposal by Bob Shaw and me. Bill's proposal is one way, I think ours is another very simple way, protecting the public, not the trade secret owner, who gets the benefit anyway, but protecting the public from belated process patents. My suggestion to you is that we could all live with this. The same way we decided years ago that any product that was on the market for more than one year in the United States is too late to patent, for anybody to get a patent. It doesn't matter, the inventor or anybody else.

If a product's on the market more than one year, we decided there's a public policy that's a fair balance, it's then too late. Why not say also that the process that was used to make the product that was on the market more than one year should also be barred from a patent? This gives the trade secret holders a year to decide whether to change course from trade secret to patenting. This protects somebody else from ever getting a belated process patent. It makes it too late, a statutory bar. So, if the product is barred, why not the process that has been used to make the product which has been dedicated to the public, whether the process is known or not, whether they kept it a trade secret or not? If it's not filed within one year, that process would be unpatentable to anyone. I commend this to you. A lot of thought has gone into this, and I want to tell you that this is one issue where I've tried to think not only from your point of view, the large corporate enterprises, but I've tried to think of it from the point of view of the university component, the point of view of the small independent inventors, the point of view of the small entrepreneurs and middle-sized companies. Indeed, I commend you to think about it. It is a compromise that I think will go a long way in solving this problem.

MS. HAYES: When Chris was speaking, I believe he said that there's no case where a jury has shut down the operation of a prior user. So, in that case, I can only assume that the prior user right legislation will really have meat if we go to a first-to-file system, which is where I'm very much in the minority in this arena. When the Advisory Commission came out with their opinions several years ago, it was the university representation and corporate representation, but there was no one on that Advisory Commission who represented the independent inventor. The practical realities may be lost, even from the university perspective, because it's funded. The research departments of corporations are funded. The independent inventors are funded by extra mortgages and by borrowing money from their families. It's a very grass roots kind of thing. They're not the people who today are successes, but in the ten years that I've been editing and publishing *Inventors' Digest*, today's successes are yesterday's wannabes. They're the people who yesterday had to mortgage their homes and their life insurance policies to get where they are today. So, the practical reality of first-to-file for them is much different than it is for a university or a corporation. Someone with an

idea may not have the technical skills to make a prototype or do the research needed to make their idea a viable reality. So, they have to go to someone else to have that done. Under a first-to-file system, they may as well just shoot themselves because it would be so easy for someone who could see the idea and see the practical potential, even better than the inventor possibly, and say, "Oh, yes, we can work with you on this," and then through the back door, go and file a patent application. They may not use their own name, maybe their brother-in-law's name. That's the reality that the independent inventor faces under a first-to-file system. There isn't the same threat to the corporate world that's already working internationally and has to use the first-to-file system. I don't think, sitting in a room like this, that people understand what will happen to independent inventors if we go to first-to-file. It's a not a boogeyman scenario either. I've talked with inventors in Europe who just wish they would switch to a first-to-invent system. Under the first-to-file, they have to work in total isolation. They can't prove their concept until after they file their application. They can't do any research until after they file their application. So, they have to invest their money in patent applications before they even know if they've got something that's viable. If they can't go to somebody else for help, they don't know what the real invention is or how it could have been made better, and they can't develop it before they go to the patent attorney.

MR. JORDA: Bob Rines extolled our patent system and, indeed, it's a venerable one. It served the country very well, but in this day and age, it looks so horse-and-buggy like and in need of reconstruction. But that's another story. Now I am not going to recant like Bob Armitage did on what I said back in 1979 in my very first article in the JPTOS on the respective rights of a first inventor/trade secret user and a Johnny-come-lately inventor/patentee. I am not recanting one word of that. Maybe I've gotten dumber, and Bob Armitage has gotten smarter.

First, the point has been made that prior user rights mean erosion of patent rights, which is not so, not so at all. No right is exclusive. The patent right is not exclusive. There's a veritable litany of statutorily or decisionally-created co-uses, forced sharing of inventions, estoppels, implied licenses, intervening rights, which are akin or tantamount to a prior user right. As for example, there are shop rights and temporary uses of inventions on vessels or aircraft; intervening rights in reissue

cases; co-uses in supplier/customer, manufacturer/distributor, and contractor/contractee relationships; public interest situations where injunctive relief is denied; and certain uses by government, etc. Thus, there are many exceptions, much erosion apart from a prior user right, so that the patent right is not exclusive.

Second, in a first-to-file system it's indispensable, as previously mentioned here today, to have a prior user right. A first-to-file system with a prior user right is fully equivalent to a first-to-invent system, only that it's better, simpler, and cheaper. Even in a first-to-invent system, you need the prior user right, and that's my conviction. You absolutely need it to protect trade secrets. Yes, we have the interference system, and if both parties, rival inventors, resort to the patent system and get into an interference, well, fine and good. The interference system will handle it. There's no need for a prior user right. It is different in a situation where one rival inventor resorts to the patent system and the other one resorts to the trade secret system, which he or she is fully entitled to do based on the Supreme Court decision in *Kewanee Oil.* There, the Supreme Court stated, "We conclude that an extension of trade secret protection even to clearly patentable inventions does not conflict with the patent policy of disclosure." So, there are two separate systems or worlds. If I resort to trade secret protection, I'm fully justified. Trade secret protection is a viable alternative to the patent system, a fully equivalent system for protection. Now, the point has been made time and again that if you don't seek patent protection, a competitor happening on the same development may obtain a patent and exclude you from using your own innovation. Now, if you believe that, I have a certain bridge to sell you. You would delude yourself in believing this because there is no case on the law books where it has ever happened that a first inventor/prior user was enjoined by a later patentee of the same invention. Even Pauline Newman stated in this very conference here two or four years ago, "I have not seen anyone who was a prior user who has been stopped on raising the § 102(g) defense, and from that viewpoint, it seems that the prior user right is alive and well." Thus, we have a de facto prior user system. Gary, you may recall Don Sell stating that . . .

MR. GRISWOLD: I recall Don Sell. I don't know what he stated.

MR. JORDA: Don Sell believed that an infringement suit against a prior trade secret user is not likely to succeed. As a matter of fact, in none of the cases where a second inventor/patentee tried to sue a first prior user for infringement did the former succeed. Chris mentioned the *Checkpoint Systems* case decided by the CAFC. When I saw it, I said "hurrah," and I wrote it on it. There the patent was invalidated under § 102(g) over the prior use of the other party, a small company. I'm surprised that Chris didn't mention the *Friction Division* case, a du Pont case. Now, what happened in that case? Friction, a small company, had a patent and sued du Pont. Du Pont defended on the basis of prior use, and the patent went down the drain, like the *Dunlop Holdings* case and any number of other cases. If anybody is intrepid enough when he or she knows that he or she was not the true first inventor to try to enforce the patent, he or she is going to end up with an invalid patent. Do we want that? No, because this is mutual destruction of trade secrets and patents. We want trade secrets to stand up and serve as a viable system of protection, and we want patents to stand up. But under our present situation, it's mutual destruction because when the patent is issued, the trade secret is gone, and when the patent is declared invalid, everything is gone. A prior user right is going to save our necks. It's going to preserve the trade secrets, and it's going to preserve the patents, so I just don't understand this opposition.

A lot of fuss is being made about a trade secret holder suppressing and concealing the invention, which invokes § 102(g). Nonsense, because in the *Friction* case it was made very clear that there is no suppression, no concealment, and no abandonment if you keep a trade secret and you commercialize it or work towards its commercialization. Let me just quote from the *Friction* case briefly, "Making the invention publicly known requires only that the public enjoys the benefits of the use of the prior invention. Public use of the invention without disclosing the details of it is sufficient to negate any intention to abandon, suppress or conceal." Just keeping a trade secret does not mean suppression or concealment. On the contrary, concealment and suppression are the very essence in the trade secret system. Otherwise, the trade secret is gone. On the patent side, if you suppress or conceal as between two rival inventors who both resort to the patent system, the one who conceals and suppresses naturally is not going to get to first base, but that is not so

when you rely on the separate trade secret system for protection.

One final point, and that has to do with the one year limitation in H.R. 2235, which we are discussing. I agree with most of the qualifications and limitations in the bill, even though these limitations and qualifications sort of emasculate it, but that's okay. I can go along with that. The provision, this one year limitation, this is what I said to Congress the week before last in a hearing on this bill, this provision goes too far. It guts this prior user defense. It is too radical and stands well-established patent and trade secret principles on their heads, notwithstanding the invalidity provision. A first inventor is a first inventor is a first inventor and should be accorded the status of a first inventor, especially in the one year period prior to the entry of a rival inventor because it is in that period that the same invention is likely to be made by more than one inventor due to outside stimuli. A provision that requires good faith and rules out derivation effectively safeguards a second inventor patentee, although reliance on the present one year grace period is illusory and impractical because of the risk of loss of foreign patent rights which small businesses and universities attempt to obtain more and more often today. Also, I respectfully submit that this provision is not only unnecessary, but seriously flawed. The present bill gives with one hand and takes away with the other. Consequently, the American Bar Association no longer has any objection, and Doug Wyatt, who was also going to testify to Congress, but in opposition, told me with a grin there was no longer any need to oppose this bill.

MR. BENSON: Well, we have just demonstrated rather clearly that within this educational institute we have rather strongly held diverse opinions.

MR. KLINE: I'm a little familiar with that *Friction* case. There was a talk given and a publication that preceded any work done by the alleged inventors.

MR. GOLDSTEIN: Just a very brief comment with regard to what Karl said, which I thought was one of the best defenses of the prior user right that I've ever heard and truly a convincing one. My comment relates to the one year provision, which Karl felt gutted the bill. I agree with that assessment. Based on my experience, it's absolutely remarkable how often, in interference situations, you end up with multiple parties

making the same invention almost simultaneously, within a month, within ten days. I had a situation where two parties filed on the same invention on the same day. This happened because the inventive entities are reacting to the same set of stimuli, the needs of the industry, and using the same art to build from. So, I agree with Karl that a provision which exempts activities which occur within a year of filing from prior user rights truly does weaken the bill.

MS. LINCK: I am very heartened to learn that after all these years of talking about prior user rights, Bob Rines has finally seen the light and is at least supporting a limited bill. I would hope that when we cover this topic three or four more times, he will see the full light and perhaps even come on board on first-to-file. One last remark: The administration, as probably all of you know, supports the Prior User Rights Bill and testified on behalf of support of the bill. I would like to point out that this is obviously against our interest because it cuts back on our business if people don't have to patent everything.

MR. BLANK: Well, I will comment on Karl's reading of *Kewanee*, which, for some reason, I had reason to read this past week and lecture on. It strikes me that I don't think you can say with any certainty that the question answered by the Supreme Court in that case will come out the same when there's a prior user right, much because of exactly what Nancy Linck says, that she knows that it's going to cut down on business before the Patent Office. This gives me reason to fear there will be a preemption question when there's a prior user right. Nancy Linck seemed to have indicated that she firmly believes a trade secret owner can get the best of both worlds without risk and no impetus to file. If that is true, and no one here has disputed it, the new and improved patent law will preempt state trade secret law, but only for valuable and inventive trade secrets. So, that's the first point. I think you'd want to go back and read *Kewanee* and review the logic and reasoning very carefully because what you might be doing is giving a prior user right and doing away with your state trade secret rights if you do so. It's not true that they didn't say that there was any conflict. They said, "In this case, there's no conflict." They might not hold that again.

Second, perhaps it's also my misfortune to have started a course. We teach patents and trade secrets by first quoting the full section of the

clause of the United States Constitution that give Congress the power to grant patents and copyrights. The specific provision that talks about rights does say "exclusive" and with due respect to Karl's argument, there are limitations on how far you can go from exclusive before it is no longer exclusive. These exceptions are very limited, except for the dealings with the United States government, which really has more to do with dealing with the sovereign power than it has to do with private rights. So, I think there still might be some constitutional dimensions to that "exclusive" right that this bill overlooks. I'm not speaking as anybody who supports or is interested in, frankly, small inventors. I'm saying the law is there, and the words are fairly clear. To suggest that they don't raise problems is perhaps trying to solve practical problems without looking at constitutional issues. We have heard that filing and maintenance fees in Europe cannot be lessened because of concerns about sovereignty, and we have heard today that the results of harmonization have not, and will not, lower these costs. Is harmonization working as predicted and can it? Is it worth bending our Constitution to harmonize further? I don't know, but I suggest this issue is far more complicated than we have dealt with it so far. Perhaps we might be doing away with a lot of state trade secret rights by giving this prior user rights without reading *Kewanee* very carefully, and we might be urging unconstitutional changes.

MR. GOLDRIAN: I wanted to add to what Heinz Bardehle said about the possibility to have a prior right just for being in possession of the invention. This is not the normal way we have that. As you know, there is a real use; commercialization is necessary or at least serious preparations for that, and I believe that this is right. It contains still one danger. As far as products are concerned, if products are actually commercialized, then it will often be possible for an expert to see what the product contains and derive the invention out of that product and in this case, this is state-of-the-art, and it will destroy the novelty of any patent application after that. So, this is something which that group Dr. Rines had mentioned, that group of free inventors, that group of people from universities, and free entrepreneurs has to consider. If they actually start to try out their invention this could, for countries with absolute novelty, be something which destroys novelty. If their contributions are so substantial, which I don't doubt, then there should be patents outside the

U.S. for these people, too. So, these companies which actually want to have patents world-wide, just have to follow the first-to-file principle even in this country.

MR. KONKOL: The reason I raised my hand before was because I thought it was getting a little monotonous with everybody saying a prior invention right would cause uncertainty. I wanted to provide a little feedback on that. I'm not necessarily in favor of prior invention rights because if you have a de facto prior invention right, maybe you don't need a statutory prior invention right. But as far as this uncertainty issue, I of course considered that when I wrote my article. But one can't write exhaustively or completely about a complex subject like this in a ten-page article. So, you can consider it Part One. The point I want to make on the uncertainty issue is that it depends on what time you're talking about. If the invention has been commercialized for a long time, both prior user rights and prior invention rights are equally certain. If you're talking about the time when the inventor is making a decision to either keep an invention as a trade secret and exploit it or to patent it, there's more certainty with a prior invention right before you invest and spend a lot of money because prior invention rights vest earlier. If you're talking about after you've already spent the money preparing to commercialize the trade secret and whether you can figure out if you may infringe, then there may be more certainty for the trade secret user. I know this is a difficult issue, so maybe we'll just have to read the transcript later on to understand some of these comments.

The other issue that we were talking about was more certainty for the trade secret user. But, a prior invention right is no more certain, provides no more certainty for the patentee than a prior user right. It's certainly neutral for the patentee, and it's probably a negative for the patentee because at least we know how to determine the prior inventor. We don't know how to determine the prior user. The patentee can't tell by looking at the cover of a patent whether a prior user has a prior user right, so that's my comment on certainty.

I have one other thing to say, because I was hoping Maury Klitzman might mention it, but I guess he left earlier. What he is looking at in one of his committees in the ABA is the idea of providing the most certainty by having an 18-month time limit under a limited first-to-invent system in which you can't contest priority unless the junior party

files within 18 months of the senior party. Similarly, a patentee could not contest a prior invention right by going back more than 18 months before his or her filing date. That would provide certainty for a prior invention right, and the benefit of that arrangement is it would be consistent. There would be internal consistency under a first-to-invent system. In other words, a prior user right is not consistent under a first-to-invent system because you're giving more of an advantage to the trade secret user than you are to the patentee who discloses the invention. That doesn't seem right.

The only other comment I want to make is that if you take a random selection of patent attorneys, I think they would be opposed to prior user rights. The reason I say that is because we have those kinds of votes in the ABA. Every vote I've seen has been overwhelmingly against a prior user right under first-to-invent. I'm not talking about first-to-file, that's a different issue. I think it may be due to the inconsistency with the first-to-invent system. I can't comment on Dr. Rines's proposal, because I haven't studied it enough, but I will.

MR. BUDINGER: I'm glad you picked on somebody who is not emotional about this subject! I also count myself as one of Joanne's former wannabes, I did want to be a successful inventor.

There are a lot of different topics that have come up here. I would like to say that I'm tickled to see the degree of unanimity in support, albeit sometimes qualified, that is behind the restricted prior user rights bill that we have in front of Congress now. I think one of the reasons for the lack of opposition is that there was a tremendous amount of input into that bill from almost every sector of the community that was concerned.

Finally, I want to key off something that both Dr. Rines and Joanne said. I personally believe that it would be possible to craft a first-to-file system that would be better for the small inventor than our current system, but I think it's going to take a lot of work. So, this comes just by way of a request: When this group gets down to doing that sort of thing, please pay a lot of attention to what the small inventors have to say and the small inventors' concerns and don't just run by them. Their concerns are real and legitimate, and I think a great deal can be handled if you listen to them.

MR. ARMITAGE: I'm in a very awkward position. I've been coming to many of these conferences for several years, and I'm sure Karl Jorda has by now an expectation that what I'm about to say will be in agreement with what he's just said. This is not true. Bob Rines probably has a feeling that I'm going to disagree to some extent with what he said about H.R. 2235. He'll also be disappointed. Two weeks ago, on behalf of AIPLA, that group indicated that we, in fact, do support the prior user rights bill pending before Congress in the form it's currently in. We did that because the last random vote of patent attorneys of which I'm aware of was at the AIPLA board where we basically endorsed the concept of prior user rights in a first-to-invent system. The last vote of patent attorneys that I'm aware of assembled at the ABA was also in support prior user rights. If we have a legislative vehicle that Bill Budinger, Bob Rines and, maybe kicking and screaming someday, Karl Jorda could agree to be passed into law, maybe we said all there is to say on this particular issue.

I did believe, however, that there were two or three things that need to be said about the small inventor community, the small entity inventor community. I've seen hundreds, maybe many hundreds, of patent license agreements that prescribe royalty rates. They prescribe royalty rates in countries that have prior user rights and prescribe royalty rights in countries that don't. To my amazement, there is no difference in those royalty rates. In other words, you pay exactly the same for exclusivity in a country where there is prior user rights as you do where there's no prior user rights. So, I therefore suggest that if there's any discount in a patent system that has prior user rights, it is of such a small magnitude that the number of significant figures used in royalty calculations round down to no change whatsoever. I do know, however, that in many license agreements I've seen involving universities, there is a huge penalty clause built in to take into account the possibility of a subsequent patentee for which no prior user right is available. I think most of you who work with license agreements find that there are often clauses that say: We will pay you five percent, eight percent, or ten percent, but if it turns out that in the course of practicing this invention, perhaps years from now, we incur a royalty obligation to someone else, someone who files later, we will actually have to take away from what we pay you what we need to pay a subsequent patentee. Under a prior user right system,

any royalties owed to subsequent patentees would be covered by the prior use right. And, indeed, in a university environment, you want your licensee to stay in business, no matter what subsequent patentees do. You don't want a situation where your own licensee stops paying you royalties because he is sued for patent infringement, is shut down, and you need to start all over again with new licensees.

There was also a statement made that perhaps the independent inventor was disenfranchised under the prior user right because the prior user right wasn't alienable to an individual. Of course, that's not true. If the individual is conducting a business as an individual and sells the assets of that business including intangibles, he can sell with that, under at least the legislative vehicles we've seen so far, his prior user right. Bob Rines did say something though that I do disagree with, and that is his "why, why" statement. Why, why do 90 percent of small entity inventors, individual inventors, appear to oppose a first-to-file system? And I don't know if the 90 percent figure is correct or not, but I have a belief that some of the answer is "lie, lie." There are so many people telling frightening stories about what will happen to small entity inventors if there is a first-to-file system that unless you're terribly sophisticated about what really goes on in patent interferences, you would have to be opposed to first-to-file.

I know a few things from studying interference statistics that ought to be told to small entity inventors. First of all, not only are there a relatively small number of interferences, but small entity inventors are horrifically underrepresented. They simply don't get into the interference contest. We know from statistics that the people who win patent interferences in almost all cases are the people who file first. If you don't file first, you don't typically win. We know that many of the exceptions to that rule were created under 35 U.S.C. § 102(g). In other words, the U.S. second filer could actually win in interference because the other party was limited to his foreign priority date, not his earlier foreign invention date. Starting January 1, 1996, that disappears. If theft and nefarious activity are a concern of small entity inventors, then I believe the opportunities for nefarious activity are undiminished in one system relative to the other. If you want to cheat in invention date proofs, you can do it. If you want to lie about whether or not you received knowledge of the information from someone else under oath, you can do it under a

first-to-invent system as easily as you can do it under a first-to-file system. Even if Chico Gholz is representing you, that may not be found out. In any case, since this is my last intervention, I want to thank the organizers of this conference for bringing this topic up because I think this topic is a perfect example of where we have debated this topic for six years, and we finally have found a way to perhaps get to the middle and get a piece of legislation out. I notice that practically nobody around this table has unbounded enthusiasm, but everyone here sees a solution.

MR. GRISWOLD: I can't be that colorful, but I would like to be. In fact, I like the compliment you made, Bob, about "all being lawyers." So, I have to admit to you, Bob, that for six and a half years I did run a business for 3M. Now how is that relevant? The reason it's relevant is that I did, of course, have a lot to do with innovation and the success that we had in our area on innovation and supporting research. It's also relevant in selecting plant sites. When I was managing that business, we selected where we would locate plants. When we were looking at U.S. versus outside the United States (O.U.S.), a factor to consider was indeed whether or not there was a prior user right when we were using trade secret processes. So, this is a real consideration that real people managing businesses do take into account.

Another thing I'll mention is that all of my in-laws are small businessmen and independent inventors. This is something that really kind of disturbs me when I see the issues that the independent inventor group are pushing, or what they don't push, and what they don't push is the question of cost. Joanne, I was surprised when you first spoke today that you did not intervene in the first discussion on cost because your inventors don't file O.U.S. That's the biggest issue. To me, that's a super issue; why independent inventors should not be attacking the cost question amazes me, particularly in the United States. Independent inventors have been galvanized on a bunch of issues. Why isn't the independent inventor group out there working like crazy on this $55 million take away from the Patent Office? Why isn't the independent inventor group working like crazy to figure out a way to reduce costs outside of the United States so that they can have better access to the patent system O.U.S.? When I was managing the business at 3M, I would see many, many independent inventors come in to license 3M. None of them did not want to get O.U.S. patents to license to 3M. They couldn't

afford it. That, in my view, is the most important issue that all of us should be working on.

Another point that Howard made was relative to the impact of licensing of patents with a prior user right. I agree with Bob that it will have no impact on royalty rates. There's always the question of 35 U.S.C. § 102(g). There are all these things that come up relative to the validity and enforceability, so I don't think that it will be impacted. Those are my final points on this issue, and as you know, I'm a supporter of prior user rights. I do find it very interesting after all these years that we do apparently have a consensus on this issue. I have some questions about the one year, but I realize that to have a consensus, you need the consensus of many people, so I did testify for IPO in favor of H.R. 2235 two weeks ago.

MR. GHOLZ: I'd like to respond to Bill Budinger's response to me. On the date that we will key off of for prior user rights, Bob Armitage said that fraud takes place in the interference system as it now stands, and that it's not always caught. Certainly that is true. If we have an issue of nonderivation, i.e., independent inventorship, then fraud will continue to take place, of course. People try. When you get lots of money on the table, even eminent and apparently upright members of community do squirly things. In interferences, it's absolutely amazing who we occasionally catch trying to commit fraud. Apparently, very, very eminent members of the faculty of fine universities get caught with their pants down. So, there are pros and cons, but the major pro on moving the date to the date of publication is the blind-side argument. It's really not fair to close people or companies down without intervening rights when they had no ability to protect themselves, to know that other people were doing whatever it is that creates the rights. It's not the filing of the patent application that is a public event that gives people the opportunity to prevent being blind-sided. It is some kind of publication, either a publication of the patent application, if we go to 18-month publication, or the issuance of the patent as things currently stand, or the publication of an article by the inventor. It seems to me that the fair way to divide this thing up is that when the patentee does any one of those things, that's either the patent issues under current law or the application is published if we go the 18-month publication, or if the inventor publishes an article or the like, that's what should be the key

date for purposes of creating an intervening right.

As to the fraud issue, yes, there will be some fraud. We'll do our best to catch it. We won't always catch it, but we usually do, Bob, I think.

MR. BARDEHLE: I could not agree more with Bob Rines when he made his emphatic pleadings for the small inventor who had to test his invention in the open market to find out whether it's reasonable and commercial. My classic example is always the winch raft. The winch raft is a very complicated device, and it had to be tested. Not everything working together was invented at the same time. It had to be tested on the open sea, creating prior art. It was prior public use with the effect, at least in our countries, that created a bar for patenting. You made a pleading for the grace period really, and that's why we are fighting for the grace period. We want to get back what we had in Germany and lost because of the European patent system and maintained just in our utility model system. So, inventors in Europe were complaining about the possibilities of exploiting their invention before filing and fearing that somebody could copy it as Hans Goldrian rightly said. Nobody after making any public test can go to the patent office and file a patent application because there's prior art. The grace period takes only that piece of prior art away, against the inventor who created that piece of prior art. That's a great advantage of the grace period. We want to have that, and this has nothing to do with the prior user right. This is a totally different subject matter. I am happy that I can express it here again because we started with this idea, the whole idea of harmonization with the grace period, which unfortunately, now is lost in the new Patent Law Treaty. We hope that we can revive it. Go and convince the Europeans, and particularly the Scandinavians and the French that their inventors should also speak up, which unfortunately they don't do, and advocate the introduction of a grace period.

MS. HAYES: I'm glad I have the opportunity to revisit the concept of O.U.S. patents. The reality is, of course, that inventors are very concerned about the costs of patents, but the beginning inventor is the person who has the idea, maybe has a full-time job, and is struggling to get the money together for the prototyping and the patenting in the United States. People who counsel first-time inventors or people who

even have a small business will routinely tell them that until they get a portfolio together and have profits and understand how to market their product within the United States, it is not advantageous for them to look outside America for patenting. It doesn't mean that, in the best of all worlds, might not be what they should do, but the bottom line is they don't have the bucks to do it. So, it doesn't matter if the costs were half of what they are now. The average independent inventor starting out, and that's who I write to and talk to, normally does not have the funds to look at patenting outside the United States.

On the other issue that Gary mentioned, the independent inventor community has been extremely concerned about the money that has been taken away from the Patent Office by Congress. I also volunteer for a national organization, the United Inventors Association of the USA. Several of us have sent fax alerts to our constituents alerting them to this fact. They've been writing to their Congressmen to alert them that this is happening and that taking money from the PTO is totally outside the interest of the inventors. So, we're doing our best in that area. I'm sure we could do more, though.

Bob, when you talked about licensing patents and mentioned that prior user rights doesn't have an impact on royalty rates, I guess what I look at more is the effect on the entrepreneur who is not licensing, the people who want to start their own business. With the downsizing of corporate America, there are more and more people, engineers, salespeople, marketing people, who are going out on their own and trying to start their own businesses. One of the best examples that I've seen is the woman from IBM who took a $25,000 buy-out and invented a little hair gizmo and is now a multi-millionaire. She's in business for herself. She doesn't care about licensing agreements. What prior user rights might have done to her would be very dramatic. She already suffers a lot with infringement. Prior user rights would devastate small entrepreneurs from the point that they don't have the corporate war chest. They don't have the profits from other products upon which to survive. They are trying to survive maybe on that first product or that fifth product. So, they don't have all those assets, and if someone comes up and says, "Oh, I have the right to this as a prior user right," that could dilute their market substantially and even put them out of business!

MR. JORDA: Just one additional point. Bob Rines implied that,

except for Bill Budinger, no one in the audience was qualified to talk about prior user rights. In response Gary indicated that he's qualified to talk on the subject of prior user rights because he was a businessman for seven years, involved in innovation, and has relatives who are involved in innovation. I can't say that at all. I'm a lawyer and a patent lawyer. But, I do not feel disqualified for one second to talk on prior user rights, nor do I believe that any of you around this table is disqualified to speak about prior user rights or any of the other topics we are discussing today because you are not now or have not been in the past an inventor/entrepreneur. I had very solid prior user rights experiences at Ciba-Geigy Corporation. In fact, the best one, a classic one, I use as a Moot Court exercise here at Franklin Pierce Law Center.

MR. KONKOL: As long as it's going to be printed in the transcript, I'll start now while people are still returning from the break. I wanted to clarify the proposal for a limited first-to-invent system; there are two parts. First, under the proposal, a junior party applicant cannot contest priority if he files more than 18 months after the senior party. That would be coupled with a patentee being unable to antedate a prior invention right if the prior invention was more than 18 months before the patentee's filing date. That would be consistent. Also, to be consistent, the time limit for a patent applicant antedating a prior invention right must be the same or greater than the time limit for a junior party applicant contesting priority with a senior party applicant, in order that a patent applicant who discloses the invention to the public is not unfairly penalized relative to an independent inventor who keeps the same invention a trade secret. A nice thing about this proposal is that the prior invention right would ameliorate the 18-month limit for contesting priority.

V. ADDITIONAL MAJOR PROBLEMS

MR. BENSON: Now we come to the part of the program where we go around the room, and each of you will state what you think is the major problem with our patent system. Obviously, it is certainly not limited to what we talked about earlier today.

MR. KEEFAUVER: While thinking about major issues, I reflected back

on my role as Chairman of the Cost and Complexity Patent Litigation Subpart of the Advisory Commission and felt that perhaps some attention in this group to enforcement issues might be in order. Whether this is a major issue or not I don't know, but it is an issue on which we didn't come up with any real resolution. Those of you who are familiar with the 1990 Civil Justice Reform Act know that there were great strides made to encourage the district courts to adopt rules to make litigation more cost effective. One of those ideas that we picked up and strongly endorsed was mandatory mediation at the outset of all patent litigation. I'm not suggesting that be a topic because I hope that's already a done deal. One idea that we had trouble with was the so-called voluntary disclosure rule. The reason we had trouble was because we had some patent litigators on the Commission. Litigators don't like to voluntarily do anything. They like litigation the way it is, with almost unlimited sandboxes in which to dig. It certainly seemed to some of us that if we could reach agreement on some basic documents at the outset of litigation, hopefully even pre-litigation, that could be voluntarily disclosed to the other party, it would put both parties in an advantageous position to decide whether or not they want to go forward with the litigation.

All we could agree on was that we ought to exchange the numbers of the patents to be sued on or defended on. Of course, that is about all we are required to do now. We discussed a long laundry list of possible additional items. For example, if the date of invention is involved, let's turn over the documents or some idea of the testimony that's going to be involved in establishing date of invention. If the date of first commercial use is involved, let's look at that evidence, and so forth.

I would suggest that voluntary disclosure is one idea to think about. What should both parties be required, not to agree to, but be required to voluntarily show to the other party under some form of protective order, so that if they don't reach agreement, they can go back and fully litigate it.

MR. GHOLZ: The worst problem with the patent system in my opinion is juries in the patent system. The long-range solution, and I don't have a whole lot of hope of moving this one through, is a separate patent court that doesn't have juries. This is Jim Davis's idea that he started pushing 25 years ago. We haven't got it yet, but it's a good idea.

He was pushing to take the Customs Court and make it into a Customs and Patent Court. Well, the Customs Court is now called the Court of International Trade. So, we can come up with some fancy name, but the idea is for a court that is accustomed to working with a statute, accustomed to following what the damn statute says to the extent they can, accustomed to being reviewed by the Federal Circuit, and accustomed to sitting nationwide. You can get the CIT judges to sit anywhere there is a federal courthouse. I don't think that any of the judges currently on that court have any knowledge of intellectual property law matters, but over the course of time, if that became an intellectual property court, that problem could perhaps be solved. So, in the long run, I would like to see all patent matters handled by a patent court with patent judges and no juries. I think that that would be perfectly constitutional for the reasons advanced in Judge Nies's dissenting opinion in *American Airlines v. Lockwood.*

In the short run and more immediately, we have an opportunity to get part of the way there with *Markman* and *Hilton Davis. Markman* is already at the Supreme Court. Hilton Davis's petition for certiorari has been filed, and we are now in the one month period for filing briefs in support of the petition for certiorari. The AIPLA will be filing a brief in support of the petition for certiorari without taking a position on the merits. I hope that eventually we will take a position on the merits, but we haven't been authorized to do that yet. In *Markman*, the Feds said that the interpretation of the claims is not a jury issue, but is for the judge. The dissent said, my God, if the judge gets to interpret the claims, that tells you in 95 percent of the cases who's going to win and asked what is the jury going to do if interpretation of the claims is strictly a judge issue. Well, we found out when we got to *Hilton Davis*. First, you spend all of that judge effort interpreting the claims to find out exactly what they mean, and that is going to control usually who wins on literal infringement. Then, however, you turn it over to the jury to decide who has the most handsome lawyer. The *Hilton Davis* decision, in my view, does not sit well and does not harmonize with the decision in *Markman*.

If we're going to try to really understand what the claims mean, then why do we then turn it over to the jury with no more guidance than was supplied in *Hilton Davis* to decide who's really going to win. Who is really going to win is what we're interested in, not what the claims mean

and how the claims should be interpreted.

So, my pitch is that if any of you have a position of power and influence in other intellectual property organizations such that you can get things moving within the time constraints that we now have, I suggest that you try to get another amicus brief filed in support of grant and petition for certiorari in *Hilton Davis* and a brief supporting Westview in *Markman v. Westview*. Both of those cases have the possibility of getting juries, not totally out of patent cases, but out of patent cases to a very large and significant extent.

MR. BUDINGER: I would like to speak in general terms from the perspective of the small business community. What we would like to see happen in our dream is the ability to file one patent application, somewhere in the world in English and have our intellectual property protected all over the world easily, inexpensively, and enforceably. I had the misfortune of being the first American company to fight a Korean patent all the way to the Supreme Court and win. I'll tell you that was something I wouldn't wish on my worst enemy. It is a horrible experience, and we in the small business community can't do that very often. We need a better international system. That is our first objective, and anything that moves toward that objective, I look upon as good. Anything that moves us away from that objective, I look upon as bad.

Right now, we are sitting, all of us, at a difficult time because in front of Congress are a series of patent bills that have become very contentious. Some of the bills appear to move us toward an acceptance or an understanding of the need for internationality in intellectual property protection. Some of the bills move us back. We have some very strong, outspoken, and well-funded forces in this country that are very much opposed to making any changes in the American patent law. Many people, maybe most of the people, on that side of the issue, in my experience, are there either because they are operating under misinformation or they're making assumptions.

An interesting example just arose in the discussions here. First-to-file strikes terror in the heart of most small inventors because it sounds like small inventors are going to lose one of the most important elements of American patent law. That is the ability to make an invention and to work on it before we have to decide whether or not to spend the money to get a patent. We are terrified that under a first-to-

file system some big, mean, nasty corporation, or maybe even our next-door neighbor, is going to come in and file a patent and we are dead—we have no recourse. So, the small inventors are fighting that passionately.

But what are they really fighting? We need to listen to them. Most of them are not really fighting the first-to-file system; they are fighting for the right to keep the one year grace period. And so my pitch to you all today is a plea for listening to each other. There's an old story about lemonade that you probably have all heard where the two sisters are fighting in the kitchen. The mother comes in and asks, "What's going on?" There's only one lemon in the fridge, and each of the sisters needs that lemon. The mother, at first, was going to cut it in half. No, no, each one needs the whole lemon. The fight resumes. Finally, the mother decides to listen. She learns that the first sister wants to make a lemon meringue pie and needs one whole lemon. The second sister wants to make lemonade and needs the whole lemon for that. The mother knows the lemonade comes from the inside, and the pie comes from the rind. So, there is a way that both parties can have what at first looked impossible. I believe that's what we want and can achieve with international harmonization. Harmonization is a word that has acquired a lot of political baggage, but I believe there is a way to achieve international harmonization that takes the very best of our patent system and spreads it around the world. It doesn't take our old 200 year-old system in total, but it takes the very best features of it and spreads it around the world. Actually, American inventors would be vastly better off under that possibility than we are under today's system. So, my request is that we all work to that end. The avenue that seems open is the avenue of listening to each other, not to hear the conflict, but to look for the possibilities.

Last week we had a Congressional hearing on H.R. 359 and 1733. It sounded like we were listening to the 1950s versus the 2050s. It sounded like there was no possibility of a bridge and, in some cases, that's true. There are some people who will be badly hurt financially if we retain the GATT reforms, and they are in no mood to compromise. For most people, I don't believe that's true. Most people are genuinely interested in improving the system. They are the people we need to talk to and listen to. I think we can have a pretty neat future patent system that will achieve this movement towards globalization much faster than we might otherwise think possible.

MS. HAYES: Coming from the perspective of the independent inventor is just so very different than the corporate or the university world. Maybe it sounds like we're ranting and raving. I first wrote about it in 1987 in my magazine, which was then about 12 pages, a little newsletter. I didn't even know what I was writing about. I got information from a French inventor who contacted me because he wanted us to know how bad the French system and the first-to-file system was. So, the independent inventors have been left out of the process and weren't invited to be part of the Advisory Commission. It's only because of the ranting and raving that anyone has listened. I know that the tone needs to be lessened perhaps at our end because the Commissioner is now listening. I think people are hearing some of the concerns that we have. I've been the editor of this magazine for nine years and bought it last year. Now I'm a small business person, and I know the weight of trying to pay bills and getting to the end of the month with more money than bills, which hasn't happened very often. The concerns of these people are really important. I hope that as corporate counsel and as people who have more clout than the independent inventors do, that you will take into consideration what the inventors need, because you do represent much larger organizations than the one-person, two-person voice.

On another issue, is there a way that this body can come together as far as the $55 million that's taken away from the Patent Office? I wonder what impact it would have on Congress if there was a letter signed by everyone here saying "enough." The users are paying for the system, and Congress doesn't have the right to take that money. Perhaps that would get some attention.

MR. WELCH: This probably isn't the major problem, but at least it's an issue that's been raised. In the last few weeks, I've seen more and more about the ability to claim priority under the Paris Convention for provisional application filed in the U.S. Obviously, the better view is that under the Paris Convention, whatever the ultimate fate of the application in the country in which it is filed, you can claim priority of it in other Paris Convention countries. But there have been people writing and sending faxes around suggesting that since a provisional application cannot become a patent, it is not an "application for a patent" entitled to priority under the Paris Convention. As I say, the other provisions of the Paris Convention clearly suggest that it is appropriate, and I think

that's the better view. That's something that should be resolved quickly.

MR. C. BENSON: My biggest concern about the patent system relates to costs. We've talked extensively about obtaining and maintaining patents today. We didn't get into the enforcement part of it in our discussion today.

I'm in favor of the Judicial Reform Act where we changed the rules of civil procedure to try and streamline litigation. The problem is that it's not being implemented. The lawyers aren't doing it. The parties aren't doing it. The judges aren't forcing the lawyers and parties to do it. If we can force the parties to do it, then the system will be streamlined, and juries will be able to decide the issues that need to be decided.

Most cases, in my view and in the view of many judges I've been before, can be put on the head of a pin; one issue here, one issue there for the jury decide. The problem, as litigators, and I'm one of them, is that you try to keep every door open. If we can force people to get to the main issues in a case, then we can reduce costs in enforcing patents.

I would like to propose a few things. First, like Bill said, I would require the patent owner and the alleged infringer to provide certain categories of information in the initial disclosure, right away. Hopefully, we could devise a list of information to be exchanged. Secondly, I would require both sides to set forth findings of fact that they believe are pertinent to the case. Then the two parties would be required to sit down and try to come to a list of facts that can be stipulated to. After that, they would be required to sit down with a judge and go over the proposed findings to further narrow the issues.

Then the parties would go into sequenced discovery. The sequenced discovery would require the patent owner to come forward with infringement contentions and proofs. The alleged infringer then would be required to come forward with invalidity contentions and proofs. After the contentions are in, the parties would go through another finding of fact session and then get on with the case.

I also believe in bifurcation of damages because it is a big waste of time if there is no finding of liability. So, if the district court judges would put our feet to the fire a little bit, both parties and litigators, costs could really be reduced.

MR. SUN: First of all, I'd like to echo what Bill said in terms of simplification and cost reduction to achieve international harmonization. Adding to that, I certainly agree with the thoughts that unless we clean up our own house, we are in no position to be the leader of the world and really create a genuine work-sharing atmosphere. So, we need to have a vision, and with that vision, let's set our priority and move toward this goal; that's utmost important. We are now in a very, very critical juncture. We are clearly seeing the possibility of dropping back to accepting the 17-year patent protection, and we are seeing that the 18-month publication period severely jeopardized. We certainly don't know what Congress is going to turn out. So, when we look at the rest of the world, many countries will point fingers at the United States and say, "Well, don't you tell me what I should do before you even get your house cleaned up." So, harmonization is the utmost important issue that we need to be focusing on at this moment.

The second issue is the litigation area. There is something very interesting that I would like to bring up about China. As you know, it's a civil law system. It doesn't have a jury. China sets up special intellectual property courts. Then, to help judges try those cases, they appoint highly specialized technicians to sit together with the judge. In other words, two experts try the cases with the judge. They will hear the cases and then cast their votes. The judge doesn't have the veto power. So, if the two specialists decided otherwise, they can overrule the decision of the trial judge. That really provides a very interesting system and contrast, at least from the American point of view. I think there is some humanity factor injected in that process, which is something very interesting that we might want to look at.

Another interesting element is that ten years ago, there was no patent system at all in China. Today, they have a relatively good patent system in place and are part of the PCT. In order to carry out their duties, there recently has been something quite significant developing. The Commissioner signed off a decree under which part of the Chinese Patent Office is now privatized. It has become a national corporation. So, in that sense, they are one step ahead of us. It is quite amazing, particularly coming from a socialist background. Even in China they are privatizing the work of their Patent Office in order to cut bureaucracy and red tape and to reduce internal costs. So, there are many things that

we need to look at around the world. We should consider different points of view and keep our dialogue going.

MR. SMITH: Before I talk about what I think is a serious problem, and it's already been spoken about, I'd like to make a comment to Joanne to correct a statement that she's made twice today about the Advisory Commission. Small inventors were not excluded from the Advisory Commission. In fact, there was an independent inventor on the Commission. I believe his name was Benitez. He was not particularly active, though he signed the report. So, there was no exclusion of small inventors from the Commission.

Now with respect to serious problems, both Bill Keefauver and Chris Benson have talked about litigation. That is what I would identify as one of the most severe problems in the patent system today. We talked this morning about access to the system, and at present costs, there isn't really true access to the system for many people. I used to advise IBM 15 years ago that it was going to cost a half a million dollars to prosecute a patent lawsuit. Then I raised it to a million dollars. Then, I raised it to three million dollars. By the time I retired, I couldn't tell the corporation that they could prosecute a lawsuit on a single patent in our technology area to conclusion for less than 5 to 10 million dollars. Now sure, that's a big company and some expensive outside counsel, but I have to tell you that you're two years into the process before you get near the court other than to talk to a magistrate judge about discovery, all at the rate that outside counsel charges. It's appropriate that outside counsel charge at the rate they do because they're highly trained and well-educated people. I'm now one of them, so I've got to, but it's shameful. It's shameful the amount of money that's spent on discovery. It's shameful the amount of jousting that goes on among counsel with each side getting nowhere, and they know they're going nowhere.

Bill talked about mandatory mediation. I've had little experience with it, but the two experiences I've had have been mere shams. Neither side was ready because the suit had just been filed, and at that point, neither side was ready to do anything serious about mediation; so there was sort of an agreement to disagree, and mediation was put behind them. We talk about voluntary disclosure. Many of the district courts don't even apply that set of rules, so we're not getting anywhere near where we should be getting. So, I believe that we really need some strong reforms,

and perhaps we need more district judges to do as they have in the Eastern District of Virginia: limit the amount of discovery, move the cases through, and get to trial in eight months to a year. You may not always like the result, but at least it's less expensive.

MR. BALMER: I can wax on about litigation being a significant problem. I think we've seen a problem in the character of patent litigation to make it more like litigation that exists in other areas. So, I'd like to focus on something that may be a little bit different. I think the problem for the patent system today is visibility. Now what do I mean by visibility? We are getting a lot of press today with very high patent judgment awards. There's a lot of visibility about patents, what they're doing, and people are starting to pay attention. The Department of Justice, people about whom we haven't heard much for the last ten or fifteen years, are starting to take a little bit more interest in what we're doing. So, where is that going to lead us and are we going to head back to the 1970-type era where patents were viewed as anti-competitive and frequently held invalid or unenforceable? I think we need to be very cognizant of where things may be going and ever watchful to make sure that the type of image the patent system had has a proper spin on it.

MR. GOLDRIAN: Well, from the eyes of a European applicant, I would first get rid of the *Hilmer* Doctrine, which is actually the last remnant of the discrimination against foreign applicants. Well, that might not be a problem. It's just a matter of doing it or not. The real problem would be how a foreign applicant could prove a conception date outside the U.S. to the satisfaction of a U.S. court. We don't know yet how this can happen, particularly since a lot of procedures which are used in the United States for proving a conception date are not possible to do in other countries. So, this is actually a problem for us. Taking the new § 104 as progress in the right direction, we still don't know whether we can actually make use of it.

Well, there may be another problem. You know that there was a panel discussion in the GATT procedures regarding the International Trade Commission. For a foreign company allegedly infringing a U.S. patent, the procedures before the International Trade Commission are much more of a disadvantage than in a normal court. We would like to have the result of that panel revived. We are expecting based on the

opinion, I think even of the President of this country, that once the GATT/TRIPs agreement was concluded, the U.S. would return to that problem.

MR. KONKOL: I would say that global patent costs is one of the main problems, as is inadequate patent enforcement outside the U.S., although, I think we can be optimistic in view of GATT and that the trend is improving. In the U.S. the cost of litigation is a problem as witnessed by the *Exxon v. Lubrizol* case this past year. Not long ago, I would have said the doctrine of equivalents was a major problem in the U.S., but I haven't had time to digest *Hilton Davis* yet.

MR. BREMER: Over the years what we've detected from the university sector viewpoint is that there has been a change in the climate to where intellectual property rights have become a preferred currency in foreign affairs. I believe that one of the fundamental concerns that we have today is the cost of patenting and patent enforcement. To endorse the vision that Bill Budinger has, we would have a beautiful system if there was a single filing world-wide with an inexpensive enforcement opportunity to go with it. That's not the pessimist's view. The pessimist doesn't worry about tomorrow because he knows everything is going to go wrong. I think where the market value of a patented invention does not exceed the costs of its enforcement, the patent has essentially no economic value to the patentee. When the university sector, because it has very little discretionary funds, tries to license, it is often envisioned as a toothless tiger that is unable to enforce its position. That is of particular concern. I think we can come to compromise on the system. It appears we have almost done so here with the prior user right, or the name that Bill Budinger attached to it, by adapting what has been described as the Japanese businessman's priorities as: 1) what will it do for my country? 2) what will it do for my people? and 3) what will it do for my company? That set of priorities would serve all of us very well in the global economy.

MR. COLEMAN: Before I comment, I have a question for Heinz Bardehle. What is the current status of the duty of disclosure before the European Patent Office?

MR. BARDEHLE: There is no duty of disclosure as you have it in your country. Of course, if it can be proven that you hid something on

purpose, prior art which you were aware of from another patent prosecution, then such circumstances would make for an opposition procedure and a very bad impression, but unfortunately, not more.

MR. COLEMAN: Okay, so at the risk of speaking heresy, I don't know if it's the most important problem, but what I see as a nagging problem to the practice is the duty of disclosure before the U.S. Patent Office. I remember back several years, at least in the 1970s, that when we filed patent applications, there was a built-in disclosure incentive. You disclosed all you knew in order to achieve good patent claim coverage that would stand up under attack. Whereas we have been discussing the expense of attorneys' fees and litigation costs, all attributable in a large part not necessarily to the substance of the prior art, but to the perceived or alleged inequitable conduct in handling prior art. Again from an IP management point of view, I have observed attorneys burning up the client's money doing exhaustive searching because they're so overscrupulous about avoiding inequitable conduct rather than just providing a sufficiently good search to assure that the necessary novelty requirement is met. I'm sure this is open to a lot of argument, but I look at the practice throughout the rest of the world. Other than for true fraud, not the so-called "fraud on the patent office," but true criminal fraud, I think the requirement of disclosure should be viewed in a more practical manner in the U.S.

MR. BENSON: In this part of the program, your statements are non-debatable.

MR. ARMITAGE: I enjoyed Howard Bremer's comments, the fact that we do not do a good job in this country of identifying self-interested changes in our patent law. Unfortunately, during the glory days of harmonization, we got the idea that harmonization occurred when we talked the Europeans into doing certain things they thought were bad for their law and, in turn, for doing certain things that we thought were bad for ours, but at the end, we'd have a common bad system. At least if you believe that harmonization was the god, that couldn't very well have been the content of the religion. I never thought that, and I think the difficulty with the entire harmonization process was there was a tiny window world-wide. The tiny window was that there would never be a treaty that anyone would ratify unless all of the changes required by the

treaty were self-interested changes for each of the patent systems involved. I truly believe that such a tiny window exists, and I think it's a window of enormous opportunity. I think it's a window where we in the United States need to finish the debate. I think as Bill Budinger, that we must be sure to finish the debate on first-to-invent. That debate must be a 360-degree debate that takes into account of all the uses of the patent system. I have been convinced from the beginning of the harmonization process that there is no dichotomy of interest, which depends on whether you're big, small, or somewhere in the middle, because everyone's concerned about costs. Everyone's concerned about honesty. Everyone's concerned about economic value. Simply because some people have more apparent resources to put in the process doesn't make putting those resources into the process more economic.

Let me say that in terms of practical things, there are only three things that I see that we need to fix. We need to fix the patent office; we need to fix the patent law; and we need to fix patent enforcement. I will not go into the details of each, but I would like to say that we need to adopt the word that is one of the three or four words most used in Gary Griswold's vocabulary. We really need vision in the Patent Office. When Gerry Mossinghoff decided to automate and make paperless the United States Patent and Trademark Office back in the early 1980s, it was an act of utter folly. There was not enough computer memory in the world to do the job, and therefore, it was never going to be done at any reasonable cost. About the turn of the century, for a few thousand dollars, anybody who wants to will probably be able to get the bibliographic database of all the world's patent offices on a home computer and be a patent examiner. Why not? It will be an incredibly cheap cottage industry to be a patent examining office. The United States Patent and Trademark Office is currently in the midst of acquiring two million square feet of office space to house massive amounts of paper and massive numbers of examiners. The European Patent Office is in the midst of needing to expand. The Japanese Patent Office just built a massive new building that's now overcrowded. We can no longer afford the infrastructure that will in a few years be obsolete. What we need to do is think about the patent system, the patent examination system as an industry that could be undertaken on a decentralized basis globally for which we do not need redundant efforts, for which most of all translation becomes a

huge impediment. Fixing the patent law—it doesn't do any good to talk about having a patent office that can be done world-wide, that can have electrical arts examined in Japan, can have biotech arts examined on the West Coast, if we have divergent standards. We had a nice harmless patent system for an agricultural country back in the early 19th century, but we don't have such a good patent system where the practice of patent law is dominated by lawyers. It's just become too complicated. You can spend infinite amounts of money if you really want to get to the bottom of what all the secret prior art is and what all the dates of prior invention are. We frankly, honestly, have gotten to the point now where the Europeans have probably almost perfected the patent law, and we eventually need to get to that consensus domestically. If we can do one thing within the next year to make the patent system vastly better, it is probably publication. That simply has to be done. Until we have an open patent system, we will never have a patent system that's cheap and economical. We will never get down the next step on the road to harmonization. Fixing patent enforcement is very easy. We only need to take the bills that outside counsel charge, move the decimal point over one place, and we've solved the problem. You notice I didn't say which direction.

MR. GRISWOLD: Thank you for bringing vision in. Actually, I think costs and access to the system, as I mentioned earlier, are the key issues. When I came back from the business side to legal in 1989, I was looking at this harmonization issue, and I wondered why were we doing this. What was the vision? If you don't have the vision, the pieces don't fit together. You're just working on various pieces saying we'll trade this for that. By the way, we should never have given up 35 U.S.C. § 104 until we had a world-wide grace period. You want to talk about *Hilmer*, but let's leave that to the side for a second. We needed to talk about a vision, and we did develop a vision at AIPLA which was to develop a cost effective, uniform, predictable, and forgiving global patent procurement system that responds to all sorts of inventors. Now, those were a few words, but each one of those words was very important. It was something at least I could then act upon. If we would achieve that vision, we would do a lot to achieve one of the three or four strategic goals of IPO. That is the cost of establishing, maintaining and enforcing intellectual property rights around the world are not so high as to be prohibitive and thereby to

prevent U.S. based innovators from protecting the fruits of their creativity and innovativeness outside the United States. Now, that's something we're working towards, and we're putting a lot of energy into. Bud, as Vice President of IPO, has done a lot of work on this. So, cost of access for everyone is a key issue, and there are a lot of ways to get there, but Bill Budinger's were very eloquent and one way to achieve that.

Now, when it comes to enforcement, time is the question in my view. Time takes care of 98 percent of the issues. If you have to be there at trial in six, eight, or twelve months, you can only spend so much money, and you also have to focus. The question is time. One of the reasons that people outside of the United States don't like the ITC is because of the short time, but time forces people to focus and to get their case done. Bob cannot bill more than 24 hours a day, and if he only has six months to do it, then we can cut down on the costs. So, I think the critical thing is to have judges get serious about time. That will take costs down. It will force people to focus on the key issues. It will also force people to be serious when they get to mediation, which in my experience is very good at the right time with the right mediator. I think costs of access, of acquiring and maintaining patent rights, and resolution of patent disputes are the key issues for all of us in the system.

MR. WITTE: I agree with the previous speakers about the cost of U.S. litigation as being very critical. I don't agree with Bill Keefauver that Rule 26 is an important factor. I do agree with the other parts of the Civil Justice Reform Act which talked about case management. The judges have to get in there, but they won't get in there and manage, organize, and control discovery unless they have Gary's time factor. Maybe the rocket docket is too short, but I think that an early trial date and the judge sticking with it is very important to control costs.

My other point is on costs of obtaining patents on a global basis. I think there's an important first step that's required before anything can be done in that direction, and that is for the U.S. to agree to go to first-to-file and then get back to the harmonization table. We must do what we can to work on other issues which have cost impact, but I don't think we're going to get at global costs unless we're back to talking on a constructive basis with our trading partners. I don't think that will ever happen unless we go to first-to-file. That should be in a negotiated context, but that's an important first step. I don't think the global

enforcement costs are susceptible to attention until we get some improvement in global costs for obtaining patents. First-to-file is an important first step.

MR. CROOKS: The major problems that have been taken up today were indeed very important ones. A great deal of light has been shed on them, and a little heat, too. It seems to me that the one with the greatest time urgency is perhaps the so-called Patent and Trademark Office Corporation Act, simply because there are at least two or three bills now pending on that subject. I'm sympathetic with Bob Armitage's hope that perhaps the step which is apparently coming in some form can be taken in an evolutionary way rather than a revolutionary way. If it isn't done right, we'll be in deep trouble.

Herb Wamsley has identified four major danger areas and has obviously given a great deal of thought to them. It occurs to me that perhaps the most serious one of the danger areas is that of the organization and authority and qualifications of the proposed management advisory board. As you think about it, that term is almost an oxymoron. If you're advisory, you're not management. If you're management, you're not giving advice. Perhaps with careful consideration the apparent inconsistency can be resolved. Certainly the relationship between the Chief Executive of the Patent and Trademark Office Corporation and board members must be wisely defined. The question whether they are "directors" or "advisors" is critical. The project will not be successful unless that issue is promptly resolved. If we move too rapidly and try to do all these things at once without thinking them through, we could have a disaster. And then we would face the difficult task of putting Humpty Dumpty back together again. So, I thank Mr. Wamsley for his very perceptive comments on that subject.

MR. SHAW: I feel a little sympathetic to the comments earlier with respect to the ITC. The procedure there is certainly medieval, not only for people coming from other lands, but people here. But anyway, I think the provisional application is an abomination. I figure it will be 30 years of litigation before anybody knows what it means. Maurice said the European Patent Office has refused to accept it. I don't know any more about it than just that. We were talking about it last night, and maybe they haven't accepted it, but it's just incredible. It has to satisfy the

Rules of the PTO, it has to satisfy the § 112 paragraph one enabling requirement. Anybody who knows any modest amount of practitioners' endeavors or activities knows that the procedure under the § 112 paragraph one enabling requirement in the United States is just different and more stringent than anywhere else, as far as I can gather. I don't know how Congress enacted that law. It just doesn't make any sense at all.

MS. LINCK: Well, I think the provisional application issue will be addressed, and those who are raising it now could have raised it earlier, but the Office is addressing the problem. I don't believe the European Patent Office has refused to accept provisional applications. I haven't heard anything like that, quite the contrary. With respect to what's the most major issue, I think I'll buy into Bill Budinger's point.

I'd really like to see us get back to harmonization, first-to-file in the spirit of listening to everyone and putting together a proposal that we can go forward on in some united way. Setting aside the vitriolics, perhaps, would be very nice.

I'd like to raise another issue. It is related to the high costs of litigation, which I think is related to certainty as to validity and enforcement of patents. I believe a number of people have mentioned that the art is exploding. It is extremely difficult for us to find all relevant prior art, if not impossible. Perhaps we need to explore different ways to bring out the most relevant prior art. Certainly duty of disclosure helps, although, contrary to one person's views, I think that issue has been put on the back burner. You don't hear much about duty to disclose anymore, and certainly we're not doing much in the Office with it. Right now, I'm responsible for the guidelines relating to computer implemented inventions and, as many of you know, our prior data base in that area needs some supplementing. We have turned to the private sector to help us out on doing just that. I'm not quite sure where we're at with respect to putting together a prior art data base, but we're going to have to work together, our users and our examiners, in order to provide a complete examination of patent applications and to provide the strongest patents that we possibly can. So, we need to come up with some creative ideas. We have a few in the Office, but you who work in the system probably have many ideas that we haven't come up with. I think that's a topic that would be worth exploring.

MR. MACKEY: Well, this is a great privilege to come at this end of the program. Since most of what I want to say has already been said, let me highlight a couple of points that may not have been emphasized quite as much as I might care to emphasize them. I think the major issues are the cost of patenting and the cost of enforcement. I think that some consideration might very well be given to a world-wide patent system. It would be a registration system subject to examination on request or the time when one wants to enforce the patent. Most importantly, we should explore vehicles for launching that proposal or some similar proposal. It's great to sit here and preach to the choir, an American expression. How does one go about trying to launch an effort to establish some sort of a world-wide patent registration system, if we could arrive at a conclusion that that's what would be desirable to do? I think that this forum or some other forums might well address themselves to how one might put together a proposal and at least get consideration and a debate launched on it. Maybe the vehicle is WIPO, maybe the vehicle is some portion of the World Trade Organization.

MR. BENSON: Just for clarification, would your suggestion of a registration system with examination only on demand include demand by some potential infringer who wants to get the patent clarified?

MR. MACKEY: Yes, it could be by the party or by a potential infringer, and it would not be for a limited number of years, it would be for the full term of the patent.

MR. GOLDSTEIN: There are several important issues that we could choose from to discuss. I think high patent costs and the resulting denial of access to the patent system in the U.S. and world-wide systems are very important issues. I think assuring high quality examination in the U.S. Patent Office is very important. But to me, the key issue is the cost and the time delays inherent in patent litigation. If you have one party who is small and the other who is a "deep-pocket," it's just that much more difficult. Often, patent litigation is determined by the time and money available to a party, rather than by the merits of the claim.

I think Gary's comments on the time issue are really what we should focus on. If you focus on the timeline for litigation and moving the litigation forward in a timely fashion, not only will it improve costs, but it also deals with the business uncertainties that are such a major part

of patent litigation. I have spoken with quite a few business managers who said, "Of course, I would rather win than lose, but if I have to lose, I would rather lose now than three years from now. I'd like to know so that I can run my business."

By focusing on the time issue in the litigation context and defining a reasonable, but relatively short, amount of time, and working within that timeline to require completion of discovery and pretrial preparation, you address a lot of the critical issues. Maybe the 18 months to trial in the "rocket-docket" is a bit too fast, but the concept is right.

MR. LOWIN: Having already heard about a substantive world patent system, I have only three significant problems to address. Those are §§ 102, 103, and 112, but I think I can limit myself to §§ 102 to 102(e), and only in the context when it is combined with § 103. This relates to the availability of U.S. patent documents as prior art references, as of their filing dates for purposes of obviousness rejections.

The underlying presumption is that the patent is representative of the state-of-the-art as of its filing date because the patentee has done all that he or she could do to bring the invention to the attention of the public. But the rest of the public does not know that, especially where that application matures into a patent because by definition, if it matures into a patent, there is something in there that is unobvious. So, I find it defies common sense to say, "Therefore, what is in the specification should be treated as having been obvious and available to the public as of the filing date."

In the biotech hearings about a year ago in San Diego, we heard a lot of complaints about what is patentable subject matter for biotechnology under the requirements of § 101 and some guidelines were promulgated. Comments were submitted on those guidelines and one of the comments was, "Well, they'll just use § 112 instead of § 101." So, the guidelines were promulgated saying, "Okay, it also applies to utility under § 112." What has happened since then is that the rejections are for the same substantive reasons, but they are said to be based on the enablement requirement. They didn't say we can't reject the same claims for the same reasons as long as we call it enablement. So, I feel that is a problem that needs to be addressed in the § 112 enablement guidelines. This relates to the person of ordinary skill in the art.

Another comment that was heard at the San Diego hearings, and

I've heard this from my inventors just this past week, is that when you take a look at an Office action you've received under § 103, the person of ordinary skill in the art is an absolute genius. This person has anticipated every possible complex development that your client could ever come up with, regardless of how many patents and publications it takes to combine to meet what is in your claims.

Two pages later, under § 112, this person becomes a blithering idiot, unable to follow even step-by-step instructions of the examples in your patent application in order to practice the same invention that was obvious two pages earlier. I think there is a little problem of consistency in how the laws are applied.

This feeds into the provisional application and the requirements that it comply under § 112, which I would suggest requires a very simple fix, something addressed to the real benefits of a provisional application system. If I'm going to publish my paper tomorrow, I need to be protected today. I want to be permitted to mail the paper to the Patent Office with a certificate of mailing.

That "provisional application" should be effective to give me an effective date against the same paper that gets published the next day, but it isn't, unless the provisional application meets the requirements of § 112. If it doesn't meet § 112, then that same paper can be cited in combination with other art, because you're not entitled to the date, and it can be used against you to reject the invention under § 103. It didn't comply with § 112, but it's still sufficient under § 103 to serve as a reference. I think that could be easily overcome by saying whatever you submit to the Patent Office in a provisional application, you've got that date for whatever it says, and the same disclosure cannot be combined with other art against you later on.

MR. KLINE: One of the advantages of being close to the end of the line is that you've heard just about all the major problems that confront the system. Bob Armitage addressed three of the major issues. The item that I'm most concerned with is the cost of enforcement, the litigation costs. Bill, Chris, and others have addressed this issue, and it's something that definitely does need to be fixed.

The other point, and I'm not exactly sure how to articulate this, is that particularly this year we have seen via the cases coming out of the Federal Circuit that the court has not provided stability, certainty, and

predictability in the interpretation of the patent law. We've seen some long-awaited, very important cases come down. I'm not so sure that everybody has been happy with the predictability and certainty that we've gotten out of those cases.

For example, the *Hilton Davis* case had about five or six different opinions. What has that done in terms of predictability and certainty regarding the doctrine of equivalents? I don't really know what the fix is on that, whether we've got to be more diligent as to the people that are getting appointed to that court. I think particularly this past year, we've seen a problem in that area.

MR. BENSON: Unfortunately, we have very little to say who is on that court.

MR. KLINE: That's right.

MR. HENNESSEY: We have an information revolution that is taking place and not just on the desktop. It's taking place on the Internet. It's taking place in terms of the cost of access to information which is directly related to the cost of patents. By the time this group meets again, there will be a revolution, and within another two years, another revolution in the availability and cost of information.

Gerrymandering information and then making sure that there is enough work to do, reinventing the wheel to find that information is a potential threat to cost-effective patents. I think it's important for a group like this to consider how effective global systems can evolve as information becomes increasingly available and much cheaper. The issue is the cost of patents.

As for the cost of enforcement, educating our judiciary is something that this group can do with a great deal of effect and make a great contribution. Unfortunately, I do not remember any district court judges attending this conference since Judge Bill Connor was here in 1987. It would be helpful to bring some trial court judges here. The CIT will not become a patent court. Patent cases will continue to be tried in federal district courts with general jurisdiction. What we have is the ability to inform people who are much more effective teachers of their own groups than we would be. They will be our best ambassadors for how to improve the system of enforcement.

MR. WAMSLEY: Probably most of the longer-term issues have

already been covered, so I would like to use my five minutes to tell you what I think is the major problem facing the U.S. patent system in the next 12 months.

In my opinion, the biggest problem facing the patent system right now is a heavily financed lobbying campaign to bring back the 17-year term measured from the date of grant. A great many people are supporting the 17-year term who are not among the heavily financed group and who I think are well intentioned.

There is really a need for more understanding of the problem that was occurring with submarine patents under the old 17-year term measured from grant. I encourage you to read the magistrate judge's opinion from the Reno, Nevada District Court in June 1995. The facts as found by the magistrate in that case, in my opinion, represent the American patent system's biggest problem of the 20th century. The magistrate recommended that Jerome Lemelson's patents claiming an earliest effective filing date of 1954 should be unenforceable. Mr. Lemelson received a number of patents between 1990 and 1994 covering bar code scanning technology and claiming an effective filing date of 1954.

I think that case is shocking, but a number of people seem to be trying to defend that method of operating the patent system. We're going to see a number of other cases come to light in the coming months similar to the Lemelson 40-year patents. I submit that in the long term the American patent system can't operate with that kind of "submarine patents" that are submerged in the Patent Office for decades.

We thought we had the submarine patent problem fixed with the passage last year of the new patent term of 20 years measured from the date of filing. The 20-year term may need some fine tuning, but I really think it is a major problem now that there is the real possibility that legislation could be enacted to reinstate the 17-year term measured from grant.

MR. RINES: Mr. Chairman, I didn't intend to talk about that, but I first want to thank you all for coming here. I would like to make a comment because I testified last week in favor of H.R. 359, but not for the reasons that you stated.

I'm in no sense defending people who I think misuse the patent system and how they try to do late claiming and continuations that aren't

curbed by the Patent Office. I told the House Committee, and I'm in no sense defending people who I think misuse the patent system and how they try to do late claiming and continuations that aren't curbed by the Patent Office, but I did ask the Committee if any of them knew who the submarine patent commander was. They looked at me. I said it's the United States Patent Office. If they were doing their job, nobody could stretch a patent out for 40 years in the first place. In the second place, nobody could start stretching claims away from their original substance, if we had examiners who knew what the devil they were doing.

Now, to show you that the Patent Office really knows how to do it, let's consider trademark oppositions or interferences. How many of you have asked for extensions of time? When the Patent Office feels enough is enough, what do they say to you? They issue an order to show cause why they should even listen to any further extensions. This is it. In the same way, if somebody is filing continuation after continuation and stretching, if the Patent Office were doing their job, it would never happen.

We have plenty of law with regard to laches and to belated claiming; there are all kinds of precedent for that. I had a case in New York where my poor client delayed only 3 years. All he did was to run his patent through to allowance, then he refiled the case, and he got a little bit of extra time. The defendant raised this issue of undue delay, unclean hands, in that case unsuccessfully. We have these well established doctrines. Who the heck needs more legislation? At any rate, that wasn't what I intended to talk about.

I do want to make a few comments to echo what Professor Hennessey has said here. We're dealing with what I call "Jurassic Jurisprudence" in the United States. And what you fellows in Europe have, I don't know what preceded the Jurassic age, but indeed, you're certainly not legally in today's technological era.

We're just not thinking about how information is now being used and the needs today for redress of abuses. How the devil can we lawyers protect any client when with the press of a button, all the trade secrets of a company can be all the way across the world to any competitor. Go ahead, what are you going to do, sue? Go ahead and sue me. The courts are an unfortunate joke in today's real world. Now, I don't mean that to be unkind. I mean it to be realistic and to wake us up. I think the only

thing we can do economically or otherwise is to find a way to solve our own disputes. This is going to take a new attitude of lawyers different than what we've had before and strong moral suasion in the business community as well.

Our job is to get our clients out of problems, and we must evolve as mediators. Not just what people are thinking about in terms of the mediation concepts of the American Arbitration Association, no, no; I'm talking about a very different level of mediators who are highly trained in a particular technology, who understand the relevant legal concepts, understand the business and entrepreneurial aspects, and can be facilitators to help people resolve disputes, or preferably avoid them in the first place.

I realize that under the Constitution, if somebody wants to sue in our courts, we're going to go on with "Jurassic Jurisprudence." But suppose we put a carrot in the granting of patents, that there's some special privileges, whether monetary, no fees, or time, whatever it may be. When you file for a patent, you automatically agree to the condition that any disputes arising out of the patent must be done by mediation and, if required, binding mediation.

Then, we can put similar carrots in the path of infringers who are being sued, with regard to this tremendous cost of litigation, that forces them to see the economic necessity of going to mediation and not to the courts. I think this is the direction we should all be thinking about. It is the wave of the future, whether we want to believe it or not.

I remember posing a question to the predecessors of this group 17 years ago when Tom Field had a meeting down at M.I.T. for the PTC. The title was "Other Techniques for Dispute Resolution." We asked the lawyers, "How many of you would submit patent validity to arbitration?" There almost wasn't a hand. It was then arbitration, not mediation, because we didn't really even know what mediation was.

We have now come to a different time and point in society. Just to hammer on our kick of "harmonization" with a system that's just as poor or good as ours and to think we've solved our problems is a fallacy. We get that little piece of paper out of the Patent Office, and what are you going to do with it? Sorry, Heinz. I never want to be seen in the German courts again, even though I'm told I won.

The last item I want to mention is to ask you to look here at

Franklin Pierce Law Center at our efforts to establish Accord, a facilitation center limited to the areas of intellectual property and technological disputes. The goal is not just for the resolution of disputes, but also to provide very skilled and trained facilitators to help avoid disputes in the first instance. We're calling on the most able people in this process to train us to help negotiate and facilitate the solution of such problems without the courts. We're going to have to do it in this new world.

I should also say something about how the independent inventor community and the large companies or others can get together. First, I would echo Joanne's comment. Why don't we all get together and get after Congress for stealing our inventors' fee money? That's a wonderful first and common project that can unite this whole country. For all types of inventors and all sized companies to get together and say that when we have paid Patent Office fees, you have no right, Congress, to take it for your own things. That is a wonderful issue that will unify us all, large and small alike, and start us all thinking we are truly brethren and sisters.

The second aspect, folks, is that you're not fooling the independent inventors. They know we already have a de facto first-to-file system, so why do you think we're hollering? We actually have in practice a first-to-file system. We're hollering because there are certain things we want to save, not first-to-file or first-to-invent; that's not the real cause. It's things that are related to the real world of our economic survival and the way innovation actually goes. Heinz, we desperately need that one year period. There's no way little people can effectively do this otherwise.

MR. BARDEHLE: We are together.

MR. RINES: We've got to have it. We'll bring the inventive community, independent inventors, and everybody else to you. You can call it first-to-file or anything you want. Just give us that grace period which underlies the greatness of the American patenting process. That was our genius in trying to match real innovation needs to the law. Let them adopt that. That's harmonization, taking the best from us, and they adopt it.

Number two, give us the opportunity to continue the CIP practice. It is essential from the innovation point of view. It's a great invention in procedure. I don't know fully what my clients are filing in

complicated areas in the first instance. I have to improve that with practically gained insights until we learn what are the really important and vital things we're doing. If I'm dead because you publish the first approximation or cut and that becomes prior art, then I'll never get the mature form of CIP's anywhere in the world. Keep that great American procedural invention. Also, you adopt it, too.

Give us those two things, a realistical and inexpensive mechanism to protect against someone who steals an invention from us and was the first-to-file, some practical mechanism, and I will assure you that we will persuade the total innovative community of this country to adopt the so-called "first-to-file." Think about our needs a little bit.

MR. BARDEHLE: Having heard so much about complications, I feel inclined to state a few positive thoughts, namely to stress the very positive attitude of the U.S. examiner to allow an applicant to turn around the examiner and prove that he was in error when he issued the first rejection. The examiner accepts that what he said in his first rejection was wrong, not nonsense, but just wrong. If you do that in countries where people have a fear of losing face, when you turn them around, then you have great difficulties to approach the examiners.

The U.S. examiner is happy when you demonstrate to him he was wrong, he doesn't lose face. I would like to recommend that you maintain that positive education of your American examiners. I speak from experience.

I also have a few points which I would like to raise. First, the duty of disclosure. We, or I personally at least, would have no problem in accepting a duty of disclosure for nearly all. But what bothers us sometimes is when we submit an international search report or a search report from the EPO, in which ten, sometimes fifteen, stupid references are mentioned just to prove that the examiner has done some work. One is obliged to submit translations of these ten references, while only one of the references may be an excellent report. This makes clients crazy. This is costly and money-consuming. Don't forget that on the other side of the ocean.

We are dealing with that. By the way, the U.S. examiner would have been obliged to make the search, and if he didn't find it, it's up to him who makes the search in the Patent Office, the examining examiner, and not somebody else. So, this shifting of responsibility for the search

to the applicant and expecting him to submit a lot of translations and unnecessary costs is really bad.

Another point is the discrepancy between treatment of unity of invention under PCT and national applications. There is no understanding on this issue, and this also makes unnecessary costs for us.

Now, I would like to give a short comment to the question raised concerning whether a provisional application is entitled to Convention priority. There is no indication from the EPO or any other side that there would be a chance that the priority would not be recognized. That was just a warning of a judge of the EPO during the recent judges' meeting, an application which can never mature into a patent by definition because it dies after 12 months cannot be considered as a regular patent application. Neither the President of the German Patent Office nor the President of the EPO has any say in that. This is a matter of all the national courts everywhere where priorities are claimed. They have to be directly and clearly convinced that such a priority is correct. I think it should be very simple and very easy, possibly by a correction of the law, whatever you may do in order to make that crystal clear for every applicant who uses that system. It is just a warning, nothing more. Nobody has said you wouldn't get a priority.

I personally would. There are good reasons that a priority can be granted, but there are also reasons under which I would have doubts. If in this important matter there are doubts, I think that's unbearable. This has to be because people already file patent applications claiming as provisional applications for which they want to claim priority. One cannot imagine what may happen some years later when in an opposition procedure which may go up to our Supreme Court, it is decided that this provisional application can never mature into a patent and can never be the basis for a priority. That could be a disaster. That's why it was mentioned, and it was just a warning to make that crystal clear.

MR. JORDA: First of all, Paul Janicke was invited from the University of Houston. Unfortunately, he was not able to make it, but he sends some thoughtful suggestions, and I would like to read them into the record. He states:

> I believe the biggest set of problems facing the system revolve around scope. For example: 1) Perhaps we should rethink the

concept of broad claims dominating the scene, supported in the so-called 'predictable arts' by disclosure of a single embodiment. The reverse doctrine of equivalents might take care of this in theory, but is rarely applied to let the defendant off the hook in litigation. 2) I think we need to reverse *Roche v. Bolar* and make all experimental use non-infringing. A system designed to produce improvement inventions shouldn't block those developments during the whole life of a dominant patent. 3) Many patents today disclose little if any use, but are block diagrams of general ideas for the future; yet meaningful challenge on § 112 grounds is most difficult to sustain. These technically unhelpful patents give me the feeling of an embarrassing lottery game. I don't yet have a proposal for what to do with this one. 4) In biology, can we afford to keep the old black-letter law that one who discovers a compound and discloses a method of making it and some use for it can claim the compound and block off all uses of it for the life of the patent? How did we come by this proposition historically? Many scientists think this is a bad rule but are not very vocal about it because they do not wish to venture into the arcane recesses of patent law, and they feel the Patent Bar will oppose them. Will we? Internationally, we spent all that energy arguing about how long patents should last, and as Rob Merges says, virtually no effort to debate how wide they should be. I think the profession needs to address scope issues more in a spirit not of what our immediate clients would like to see, but rather what is good for the long run.

Okay, now a couple of topics of my own that haven't been addressed, and maybe they're not that major, but I'd like to see us establish a utility model, petty patent system or, as it is called in Ireland, which established such a system very recently, a short-term patent. Now, the European Union is seriously considering it based on a proposal by the Max Planck Institute. The norm is becoming a ten-year term with a superficial examination. This may be needed, and a lot of people have argued that to provide protection in the "twilight zone of subpatentable inventions" would reduce costs, would be simple, and would be a bridge over the trade secret/patent gulf.

In this connection, I would like to advocate a 25-year patent

term from filing across the board. This would also be simpler because now we have a patchwork of exceptions: 20 years from filing, but if it's a pharmaceutical case and there was a regulatory delay, or if there was a delay based on appeals, based on interferences, based on secrecy orders, etc., you can get up to five years extension. But rarely is it that much, and it's a lot of trouble to get any extension whatsoever. So, going to 25 years would solve all that and would simplify the system and make it cheaper.

Of course, I'm on record of arguing for a 50-year patent term for basic pioneering inventions, which are often ahead of their time, and this has nothing to do with submarine patents.

I also feel that something needs to be done with our anachronistic interference system which, together with divisional practice, foreign filing licenses, and abandonments, Don Banner called a "Mickey-Mouse practice that should be abolished" at the Third Patent and Trademark Office Day Conference held at the Washington Hilton on May 24, 1982. But rather than abolishing it, we gave it world-wide scope by extending § 104 to all NAFTA and WTO countries. That is going to be disastrous. Yet, there is an ideal compromise or solution, one which former Commissioner Mossinghoff proposed at an ABA-PTC Section Meeting in San Francisco on July 7, 1982. Unfortunately, it fell into oblivion. Under our proposal he said, "We would retain the present first-to-invent system of priority. But we would change the procedure so that a patent will be issued to the first person to file an application, and it would be up to the second person filing an application on the same invention to trigger an interference with the patentee. If the 'junior party' is successful in the interference, his or her patent would run from the date of the original senior party's patent." That would have cut back on interferences, simplified interference practice, and improved the patent system, while retaining the first-to-invent system. The best of both worlds! What a missed opportunity!

One final point, the pendulum apparently has swung a little too far, and maybe the time has come to stop it, what with billion-dollar judgments, permanent injunctions before appeals are exhausted, "patent blackmail" as the Chief Judge of the Second Circuit Court called it, because too many marginal patents are being asserted. Because of the very high rate, excessive rate as some say, of patent validations, former

Congressman Kastenmeier said, "What have we wrought by establishing the CAFC?"

Now these are some of my suggestions. Bob, I am glad you said that they are nondebatable. Why? Because when you get two lawyers together in one room, you get three opinions, and no two lawyers can discuss any issue for more than five minutes without coming to total disagreement.

MR. BENSON: Well, it's awfully close to 5 o'clock. I wanted to get you out of here because I know some of you have long drives to get home, but I want to thank you. I really appreciate the efforts that all of you made to come out here on a Saturday and spend a full day in Concord, New Hampshire. We really appreciate your contributions. The discussions were very, very helpful, and they certainly have given us a real checklist of things that we can think about for our next conference.

Again, thank you very much.