

Statement by Congressman Michael Michaud (D-ME) on H.R. 1260, the
Patent Reform Act of 2009
Submitted for the Record
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Chairman Conyers, Ranking Member Smith:

I am grateful for this opportunity to express my views on H.R. 1260, the Patent Reform Act of 2009, important legislation that has real implications for U.S. competitiveness, job creation and the viability of our industrial base.

In the 110th Congress I opposed H.R. 1908, the 2007 patent legislation on the House floor because I felt it could hurt patent protection for manufacturers and other innovative sectors. In my judgment, the legislation made infringement of patents easier, and reduced innovation and undermined employment in the vast majority of sectors in the American economy. Opposing the bill was not something I wanted to do because of the great respect I have for the leadership and the Members of this Committee that were supporting this bill, but my conversations with manufacturing companies and their unions persuaded me that the bill needed significant improvements to make it a beneficial measure for the American economy. I am grateful for the dialogue we have engaged in for the seventeen months and appreciate your willingness to consider making changes that would bring this bill to the middle so that it is a consensus document that works for the range of American innovators, not just one or two sectors of the U.S. economy. At a time of major national recession, it is more vital than ever that patent reform legislation that passes the Congress enhances rather than undermines American innovation.

As you know, the competitive pressures facing U.S. manufacturing in particular are intense. Lower wage rates abroad and very low health care and pension costs are the rule in developing nations like China and India. Stronger safety nets and stronger national pensions help lower direct costs to our developed nation competitors in places like the EU and Japan. Almost all of our economic competitors reward exporters with a value added tax refund-typically about 15 percent, while leveling that same 15 percent tax on all imports. Our exporters face a typical 30 percent cost disadvantage on this issue alone.

Clearly, it is a challenge for U.S. manufacturers to compete with both the low and high end manufacturers around the globe. Perhaps our last real advantage is America's leadership on intellectual property. We have the strongest global patent protections and the highest penalties for infringement. High end

manufacturers choose to stay in the United States because of our innovative and high skill workforce as well as these legal protections.

Great care has to be taken with patent reform. Downward harmonization of patent protections in the U.S. could result in the migration of hundreds of thousands of high skill, high paying manufacturing jobs overseas. And the outsourcing of jobs has been a chronic problem in this sector, facing a myriad of economic pressures. Since 2001, more than four million manufacturing jobs have been lost in America. In 2007, a former Chinese judge wrote an article for an IP publication in his country that pointed out that the legislation under consideration in the U.S. Congress would have been favorable to infringers. Similarly, an article in an Indian newspaper noted that the legislation would help Indian pharmaceutical companies overcome the patents of their U.S. competitors. Clearly, that is not the intent of any Member of this Committee, but I think it indicates the care we must take as we reform the law in this area.

Progress on Damages in the Senate

In 2009, the patent reform legislation seems to be moving in the right direction. Significant progress was made when the Senate marked up its patent reform legislation, S. 515 in early April. The Senate Judiciary Committee was able to reach consensus on the important damages issue, a consensus that I hope is a template that the House will be able to accept.

Chairman Leahy, Senator Specter and Senator Feinstein found a way around the divisive “apportionment of damages” language by instituting a “gatekeeper” function requiring judges to clearly instruct juries on the relevant factors in each case based on the evidence presented. One criticism of the current system is that judges do not always narrow the range of factors for juries to consider. They sometimes simply give the jury all fifteen Georgia-Pacific factors to consider regardless of the evidence. The gatekeeper function is a big step forward in setting parameters for damages determinations, without artificially limiting amounts that can be awarded to redress patent infringement. I hope this Committee will consider adopting the Senate language regarding damages.

Post Grant Issues Remain in the House and the Senate

Major problems still exist with the post grant provisions as they are written in H.R. 1260. First, the bill is overly broad on the evidence allowed to use in the determination of the scope of patent claims. Language allowing prior art to be based on prior public use or sale in the United States for a year prior to an application is very problematic and could open the U.S. Patent and Trademark

Office (PTO) to a flood of patent applications from infringers. Not only would this be unmanageable for PTO, it is bad public policy. Historically, the PTO has based prior art research on patent applications, materials and documents filed at the PTO. That is a safe system, properly limited in scope. That is the right course, and I am happy to report that the Senate Judiciary Committee fixed the major overreach on prior art that was contained in the original draft of S. 515 and would urge the House to follow suit.

Beyond that provision some other changes in the post-grant language in both H.R. 1260 and S. 515 are necessary. Otherwise the post-grant first window and expanded *inter partes* reexamination second window will increase the length of patent pendency, reduce patent certainty and undermine U.S. innovation and job creation.

More broadly, I am concerned that without changes, even the Senate bill will undermine the system, particularly for small, innovative players like venture capitalists, energy efficiency start ups, medical device manufacturers, small tech companies and universities. These are the engines of our economy. From their ranks will emerge the next generation Microsofts and Googles. Their fear that larger entities will serially challenge their smaller competitors without greater constraints on post grant patent challenges is very real, particularly in the expanded second window. As we work to enhance American innovation, we should not make it easier and cheaper for large entities to challenge the hard earned intellectual property of smaller entities. Additionally, well heeled foreign competitors could easily game the system by providing serial challenges to undermine American innovation.

Additionally, I share the concern of the Patent Office Professionals Association (POPA), the union that represents patent examiners, that the PTO could be overwhelmed by this new post grant review and strengthened *inter partes* reexamination system. Currently, fees collected by the PTO are declining due to the economic conditions and patent backlog is on the upswing, after a period of time that the agency had been making progress on the backlog and had been hiring new examiners. Now, in the current economy, is the wrong time to load a large new post grant mandate on the agency.

What the smaller producer is looking for is patent certainty to protect their invention, their intellectual handiwork. Everybody comes from the entire world for U.S. patent certainty. In fact, more than half the patents filed in the United States last year were from abroad. While that may be an indication that

we need to do more to foster domestic innovation, it is clearly a great testament to the strength of our system, a system that we dismantle at our own peril.

Europe and Post Grant Review

The European experience with a post grant review system is instructive. They do not have strict timelines and strong estoppel, meaning that serial challenges to patents are permitted. The process takes typically at least seven years to establish certainty at the European Union patent office, then often a patent face challenges in the courts of each country. Perhaps one reason that the Europeans don't get as many innovative start ups as we do is because the patent system is biased in favor of larger companies. In 2007, three times the number of patents were filed in the U.S. as in Europe (456,000 vs 140,000), even though Europe has a much larger population and overall GDP. I feel strongly that we should not make changes undermining our overall advantage in the patent arena over this worthy competitor. If the world values our patent system over the European system, it would be a serious mistake, in my view, to downwardly harmonize our patent system to be more like the EU.

In addition to Europe, Japan instituted a post grant system for a period of time, but eliminated it in 1996 because it increased litigation.

Solutions on Post Grant Review

On the topic of post grant review, I believe we should keep the framework of the House bill from 2007. The House Judiciary Committee was clearly on the right track. A one-year post grant first window, coupled with an expanded *inter partes* reexamination system makes sense, provided the challenge parameters can be a bit stronger to ensure we do not replicate the European system. In addition to fixing the prior art problem, the following safeguards can ensure that patent challenges are not simply used to question a legitimate patent's validity for an extended period of time:

-Strong estoppel is necessary to tighten the standards of challenges and ensure that similar challenges from similar entities are consolidated.

-The threshold to make challenges must be strengthened. This elevation will eliminate many nuisance challenges. In 2008, the Commerce Department said in a letter to Chairman Leahy that, "the threshold standards for access to both the first and second-window challenges need to be clarified." They also noted that estoppel needed to be strengthened.

-It is critical that the open ended duration of post grant challenges that can occur in Europe is not repeated here. The requirement must be added that the completion of any *inter partes* challenge occur within one year after the conclusion of the original one year post grant first window challenge. These two measures must be consistent.

-And I support the restoration of the presumption of validity standard for the first window of post grant review. With no presumption of validity, the work of the patent examiner is completely disregarded. Our patent examiners are trained professionals. They are the only completely objective individuals involved in the patent application process. Ignoring their work would be simply inefficient and unwise. The PTO must be instructed in any challenge to make the initial assumption that patents are valid, as is the case in the current system.

There are other changes that are helpful, but these four are critical. I look forward to working with you to accomplish these changes, fix the prior art problem, and improve the overall post grant and *inter partes* provisions of this legislation. And I am hopeful that you will be able to accept the constructive damages compromise of the Senate bill.

One final point, Mr. Chairman. If the suggested changes are not made, I believe that the number of patent filings will plummet as smaller entrepreneurial companies and academics decide it is better to operate on the basis of trade secret rather than put their innovations on the public record. That would be a tragedy for America, for without the shared but protected information currently provided by our patent system, innovation and change will decrease in America and our competitors will pick up the slack.

I appreciate the opportunity to share my views with the Committee and look forward to working with you to ensure that our intellectual property laws remain the strongest in the world.