

STATEMENT OF
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**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**
BEFORE THE
**COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE**
**“Implementation of the Leahy-Smith America Invents Act and International
Harmonization Efforts”**
JUNE 20, 2012

Introduction

Chairman Leahy, Ranking Member Grassley, and Members of the Committee:

I appreciate this opportunity to discuss the United States Patent and Trademark Office's (USPTO) ongoing efforts to implement the provisions of the Leahy-Smith America Invents Act (AIA) and the law's contribution toward international patent law harmonization.

Mr. Chairman, you and your colleagues deserve special praise for your tireless efforts over several Congresses that led to enactment of this historic legislation.

AIA Implementation

Mr. Chairman, I am pleased to report that our AIA implementation efforts are proceeding on a timely basis. America's innovators are already seeing the benefits of this legislation.

We have implemented seven provisions of the AIA – all within the time frames prescribed by the Act – and we are working toward implementation of 13 additional provisions and two programs.

We are pleased that stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA microsite contains all implementation-related materials including summary documents, legislative history, implementation-related events, announcements, and points of contact.

Our AIA implementation team continues to review hundreds of comments received from individuals, IP organizations, IP practitioners, other government entities and academic institutions. We are identifying which aspects of the proposed rules are strong as proposed, as well as areas where improvements can be made. Importantly, we have received excellent input on rules ranging from post-grant review to *inter partes* review to oath and declaration, enabling us to make many substantive improvements to our proposed rules provisions across the board, and produce rules that will best meet the needs of America's innovation community.

Consistent with that approach, for example, the proposed regulations for the new administrative trials are aimed at streamlining and converging issues for decision while giving flexibility to the parties to determine the manner of putting forward their case. In order for the new trial proceedings to serve as a quick and cost effective alternative to litigation, the proposed rules provide the parties, subject to the guidance of neutral, disinterested judges at the new Patent Trial and Appeal Board, with flexibility to tailor the scope and timing of discovery and other requests as warranted by the positions taken by the parties and the facts of the case. By providing parties with these tools, it is anticipated that the current inefficiencies of *inter partes* reexamination will be reduced and potential future abuses of the *inter partes* review process will be avoided. We appreciate the significant and helpful input on these issues we have received from our stakeholders.

We will respond to the public comments in our Final Rules to be issued on or before August 16, 2012. The rules will then become effective on September 16, 2012, giving us a window of time in which to educate both examiners and the public on the final rules in advance of implementation. And, recognizing the importance of continuous improvement in this complex rulemaking process, we have made clear our intent to iterate on the rules even post implementation, taking more input once users gain experience with the rules, with an eye toward further improvement and refinement.

Reports

On January 16, 2012, we submitted two AIA-required studies to Congress: an analysis of the prior user rights defense, and a report on international patent protections for small businesses. We solicited comments and held two public hearings on the issue of genetic testing and are finalizing our report to Congress.

Fee Setting

In early February, the USPTO published initial proposed fees for all of the patent services we provide, pursuant to the new fee setting authority under the AIA. The proposed fee schedule represents only an initial proposal and is far from final; a formal proposal is forthcoming. We have invited feedback and recommendations from the public and have received substantial input. We anticipate a meaningful dialogue over the coming months as we attempt to set our fees at the most appropriate levels.

Throughout the fee setting process, the USPTO will be guided by two overriding principles. First, the agency must operate within a more sustainable funding model than it has in the past to avoid disruptions in agency operations caused by fluctuations in the economy. Doing so requires that the fees charged for services more closely reflect the actual cost of delivering those services. This cost must account for both planned expenses and unanticipated events, requiring the Office to build an operating reserve that ensures its long-term financial stability. Second, the USPTO is adhering to the strategic imperative set by its user community to dramatically reduce patent pendency and the backlog of unexamined patent applications in accord with the USPTO's 2010 – 2015 Strategic Plan. Doing so requires a significant increase of examination resources, which in turn dictates the necessary fee collections. We will of course reevaluate fee levels when we reach financial stability and meet our patent backlog and pendency goals.

The Patent Public Advisory Committee (PPAC) held two public hearings on the proposed fee schedule and will issue a report to the USPTO before we publish our Final Rule, detailing its comments, advice, and recommendations.

Roadshows

The USPTO conducted seven AIA roadshows, at locations across the country, to explain and receive feedback on our proposed rules for various new provisions required under the AIA, including supplemental examination, *inter partes* review, and post grant review. Our audiences, numbering a total of 1,300 attendees, included independent inventors, private practitioners, in-house counsel and IP academics. Informational slides and videos of the presentations are posted on our AIA micro-site. We are planning a special public roundtable for the first-inventor-to-file provision during the forthcoming public comment period. We likewise are planning for another series of cross-country roadshows in the fall to educate stakeholders about the final rules.

Track One

The USPTO has launched the AIA-mandated prioritized examination program (Track One) that allows patent applications to be processed to completion in 12 months and offers small businesses a discount on this option. Since its inception, we have received more than 4,000 Track One patent applications, and more than 1,500 entrepreneurs have taken advantage of those 50 % discounts. We have completed more than 2,300 first actions on Track One examinations in an average of approximately 90 days, mailed over 500 allowances, and issued more than 200 patents.

Pro Bono and Ombudsman Programs

Consistent with the directives in the AIA, we are working with intellectual property law associations across the country to expand the availability of *pro bono* patent services for under-resourced independent inventors and small businesses. Programs have been launched in Minneapolis/St. Paul and Denver, and we anticipate adding three more programs this year and an additional 11 programs in 2013. We intend to have regional coverage across the entire U.S. completed by 2014.

Our Ombudsman Program, now in its second year, has enhanced the USPTO's ability to assist applicants and their representatives in resolving breakdowns in the normal application process.

Satellite Offices

Finally, on AIA implementation, the USPTO is moving forward with opening satellite offices within three years of the AIA's enactment. These offices will allow the USPTO to attract and retain qualified patent examiners and improve applicant-examiner interaction. The USPTO will open its first satellite office in Detroit next month. At the end of last year, the general public and city and state officials across the country were invited via a *Federal Register* notice to submit comments and suggestions regarding the selection of additional offices. We are in the process of reviewing and analyzing the more than 600 responses received and expect to announce the locations of additional offices this summer.

International Harmonization

Mr. Chairman, with the adoption of the AIA, the U.S. is now able to pursue a 21st century globally harmonized patent system – one that international negotiations have anticipated for more than 25 years. Congress has enabled the USPTO to not only act, but to lead in realizing a vision of an IP world in which national and regional patent systems are coordinated to create an optimal environment for technological innovation and diffusion. Passage of the AIA has provided an opportunity to restart long-stalled discussions with our foreign counterparts toward substantive harmonization that will help U.S. businesses succeed in the global business environment.

The USPTO has been proactively working to capture this opportunity, reaching out to our stakeholders and our counterparts in patent offices throughout the world, to foster discussion on substantive patent law harmonization. Since enactment of the AIA, I have visited several of our foreign counterparts to discuss this opportunity. During these conversations, I stressed that a key requirement in realizing international harmonization is overseas adoption of a modern grace period. Grace periods have been adopted in many patent systems throughout the world and are recognized as a global best practice.

U.S. patent reform has set the scene for further harmonization to simplify the process of seeking international patent protection, reduce the cost and time it takes to obtain patent rights, and speed the deployment of innovative goods and services to the marketplace – thus promoting growth and creating jobs.

Patent Harmonization Groups

In an effort to re-energize discussions on substantive patent harmonization, the USPTO hosted the “Asia-Pacific Patent Cooperation (APPC) Forum for the 21st Century,” on March 7-8, 2011, in Alexandria, VA. The forum, led by Heads of Offices, included informal discussions among like-minded Asia-Pacific economies, including several interested developing countries as well as interested observers. At the close of the APPC Forum, the participants agreed upon a statement that concluded:

“The time for substantive harmonization is now. We are operating in a global economy, business innovation is happening across borders. The IP system needs to be supportive of this new reality.”

The so-called “Tegernsee Group” was formed in July 2011, following the APPC meeting, and is comprised of the heads of the European, Danish, French, German, UK, Japanese and United States patent offices. Over the course of the last year, patent law experts from these offices prepared a comparative analysis of substantive law applied in each jurisdiction. Earlier this year, the Group reconvened near Munich to consider the results of the experts’ work and, at the conclusion of the meeting, agreed to a statement outlining further specific work for the experts to undertake, with a view to identifying and studying issues for further convergence. The grace period was highlighted as one of four issues for near term focused effort. The Tegernsee Heads will meet again in October to consider progress made by the experts..

Earlier this month, we joined the officials of the European, Japanese, Korean and Chinese patents offices – collectively the “IP5” – to discuss and make commitments toward cooperative efforts on a range of issues including classification, translation and work sharing. The group also noted the importance of maintaining the momentum toward harmonization of patent laws and agreed to establish an expert panel to continue discussions.

Enhancement and Expansion of International Work Sharing

Work sharing continues to be a key feature in the USPTO’s approach to managing workload and reducing the examination backlog, and as such, we have been working to enhance and expand our work sharing cooperation efforts. A critical component of work sharing is the Patent Prosecution Highway (PPH). Under the PPH, an applicant can fast-track examination in one office after a finding by another office that one or more corresponding claims in a corresponding application are allowable. The PPH results in faster, more efficient and higher-quality processing, saving applicants and offices time and money.

From its inception in 2006 to the end of May 2012, the USPTO has received 11,056 PPH requests. In each of the past two years, the USPTO has received double the number of requests of all previous years combined, and is on pace to do the same by the end of CY 2012. Other key PPH metrics include:

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- Processing efficiency—applications filed under the PPH require 20% fewer office actions to complete prosecution than the overall USPTO average (2.1 office actions/disposal for PPH vs. 2.6 overall); and
 - Higher allowance rates—as compared to overall USPTO averages, PPH applications are allowed at a much higher rate at first action (24% vs. 14%) and at final disposition (88% vs. 49%).

The USPTO is currently partnering with 22 other patent offices around the world on the PPH, and is in discussions with several others about developing PPH pilot projects in the near future. The USPTO has also worked with partner offices to formulate enhancements to the existing PPH framework. One such enhancement, which was initiated as a pilot project in July 2011 is “MOTTAINAI,” a Japanese word referring to avoiding wasted resources. Under the MOTTAINAI model, PPH eligibility can be based on work done by any participating office on a corresponding application, regardless of whether that office was where the first application was filed. By “de-linking” priority from the eligibility requirement, the MOTTAINAI model provides applicants with greater flexibility and increased opportunity to participate, without impacting office-to-office work sharing efficiency.

The USPTO also developed and launched a pilot project in January 2012 on a next-generation PPH framework—PPH 2.0—which incorporates the MOTTAINAI model and makes a number of other user- and office-friendly enhancements to the basic PPH. The goal is to streamline requirements and processing and to move the PPH away from a network of bilateral partnerships toward a more centralized, and thus more consistently implemented and more easily navigated, international cooperation framework.

In addition, the USPTO has recently proposed an initiative known as the Global Dossier, which would establish an electronic, stakeholder-oriented environment in which applicants can plan and execute their global IP strategy and avoid the filing of duplicate documents in multiple offices. It also would provide an environment to maximize work sharing and collaboration among examiners world-wide. Remarkably, while the proposal was just introduced fully in April 2012, by June all of the IP5 offices had agreed to the Global Dossier as the vision needed to realign the IP5 technical cooperation.

PCT Processing

The Patent Cooperation Treaty (PCT) enables U.S. applicants to file a single international application in a standardized format, which is then received by PCT contracting foreign states. The USPTO has been working to raise its PCT processing techniques to world-best levels to aid U.S. technology owners to obtain early and fair IP protection internationally. We have taken concrete steps to improve our quality and timeliness. For instance, we modified the quality measures of PCT work products to be more aligned with those of U.S. national applications to maximize the potential for re-use of the international search and patentability opinion in the national phase. On timeliness, in 2011 our efforts resulted in issuance of 81% of international (PCT) search reports within 16 months from priority, and 92% within 18 months from priority. This represents a threefold improvement over our performance on these metrics three years ago.

Additionally, the USPTO, in conjunction with the UKIPO, has developed a plan to improve the PCT. This plan, referred to as “PCT 20/20”, is comprised of a series of improvements which will increase quality, enhance transparency and simplify the PCT system. The PCT 20/20 proposal was introduced to the PCT Offices at the fifth PCT working group at the World Intellectual Property Organization (WIPO) in May 2012. The USPTO will present the proposal more fully at the next meeting.

Patent Law Treaty and Hague Agreement on Designs

Mr. Chairman, as another step toward procedural harmonization, we look forward to working with you toward enactment of implementing legislation for two international treaties that will benefit U.S. applicants and innovators – the Patent Law Treaty (PLT) and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (Hague Agreement). Both treaties were ratified by the U.S. Senate in 2007 and require implementing legislation for the U.S. to become a member.

The PLT simplifies the formal requirements and reduces associated costs of obtaining and preserving patent rights in multiple countries of the world. The PLT complements our existing international obligations and the new provisions in the AIA. Implementation of the PLT will benefit U.S. patent applicants and patent owners by merging national and international formal requirements associated with patent applications and patents.

The Hague Agreement facilitates international design protection in member countries by streamlining the application process for multinational patent protection. Design rights, once considered an unsophisticated way to protect intellectual property, have become valuable tools for U.S. companies. And – as the considerable attention to the innovations of Steve Jobs has shown us – the relationship between design and function has grown closer in recent years.

Under this treaty, administered by the World Intellectual Property Organization (WIPO), a design owner will be able to apply for design protection in each country that is Party to the Act by filing a single standardized application at the USPTO. This is similar to the way the Madrid Protocol provides an option for multinational trademark protection. The Geneva Act was negotiated specifically to maintain substantive examination systems like that used in the U.S. while providing a globally streamlined design protection system for U.S. owners of industrial designs. This system will benefit innovative small and medium-sized businesses and sets the stage internationally to discuss other possible improvements to international design law.

Assistance for Small Entities

Another harmonization issue involves the assistance provided by governments to small entities and independent inventors who do not possess the resources and expertise necessary to effectively apply for global patent protection. Our recent report to Congress titled “International Patent Protections for Small Businesses,” highlighted the substantial differences in the accommodations made to small entities by foreign patent offices. The large majority of countries do not provide small entities with discounted patent processing fees on a nondiscriminatory and technology-neutral basis, as is currently the case in the U.S.

Additionally, a number of countries have pursued a policy of direct subsidization. China may be the most notable example. China has made concerted efforts to broaden its intellectual property system and increase both domestic and international patent filings. Direct government subsidization of Chinese citizens’ patent applications and maintenance fees has been a particularly notable mechanism for supporting that increase, although it is unclear if such subsidization has positive impacts on innovation or entrepreneurship. It should be noted that one effect of the Chinese subsidy is that their government is paying for Chinese applicants to obtain U.S. patents. A harmonized approach to providing assistance to small entities, based on the American system of small entity discounts, would help level the playing field for these innovators in the global marketplace.

Conclusion

Mr. Chairman, as we continue to engage the U.S. and global innovation community on implementation of the AIA, we are reminded, time and again, that growth, job creation, and success for businesses of all shapes and sizes is highly dependent on the effectiveness of IP protection and the efficiency of the USPTO. I want to take this opportunity to thank the leadership at the Department of Commerce for their continued support of the USPTO and as we implement this historic legislation.

It is clear that policies supporting a higher-quality IP system are making a difference in our nation's economic recovery. The Department of Commerce's recent report on IP and the U.S. economy "Industries in Focus" shows that America's core strength lies in our ability to experiment, innovate, and create. Sensible government policies that encourage and stimulate that spirit of innovation can demonstrably contribute to job creation and economic well-being. The end result is 40 million jobs in IP-intensive industries, representing 35 % of U.S. GDP.

Mr. Chairman, we look forward to working with you to ensure that the innovation-advancing, job-creating, deficit-neutral work conducted at the USPTO continues to best serve America's innovators.

We appreciate your continued support for the employees and operations of the USPTO.

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