

Headaches aplenty as the US grapples with reforms

The United States is undoubtedly one of the world's great intellectual property powerhouses. It is a country that produces more patents, trademarks and copyrights than any other, and which offers an infrastructure designed to facilitate the creation, exploitation and protection of rights. The Bayh-Dole Act was one of the most important pieces of IP related legislation to have emerged anywhere in the 20th century and, combined with the creation of the Court of Appeals for the Federal Circuit in 1982, helped change the way in which patents were viewed not just in the US but across the world. An active and well-organised lobby ensures that Congress is well tutored in the needs of the American IP community, while the Director of the USPTO, appointed by the President, helps shape IP policy in a way that is responsive to the needs of the users the Office serves.

But while European rights owners may rightly cast envious eyes across the Atlantic, it would be wrong to think that everything Stateside is a bowl of cherries. It is not. Take the cost of litigation. It is prohibitive, especially on the patent side, where first instance cases will almost never cost each party less than US\$500,000 dollars to see through to conclusion. In complex litigation, that figure can increase eight fold. Justice, therefore, comes with a heavy price tag – one that many smaller companies are unable to afford. This puts them at the mercy of bigger players who are able to force them into settlements or out of markets on the basis of merely having deeper pockets.

Furthermore, the system creates uncertainty. A patent's validity can only be tested through litigation if the patent owner takes action against a competitor for infringement, or provides the competitor with standing to bring a declaratory judgment action based on threats by the patentee. It

means a competitor cannot challenge a patent in the courts before incurring both the cost and risk of developing and then marketing a product. Where such litigation does occur, it tends not to happen until between seven and 10 years after the patent is issued, with a final decision not coming for another two or three years after that. That's a lot of waiting – especially if you are the party sweating on a bet-the-company case.

Although this has been a problem for many years, it is only recently that it has attracted serious attention. Now, however, things do look as if they may be about to start moving. During 2004, support grew for the introduction of a post-grant opposition procedure. In June, the House sub-committee on intellectual property conducted a hearing on the subject, with testimony from a number of interested parties, including James Toupin, the general counsel of the USPTO, Michael Kirk, executive director of the AIPLA, and senior Google lawyer, Karl Sun.

By the end of the year a bill had been placed before Congress (the Patent Quality Assistance Act of 2004, HR 5299), by Howard Berman (D-CA) and Rick Boucher (D-VA), that would amend the Patent Act to provide for post grant reviews. Under the proposed legislation, an opposition request must be made within nine months of the grant (or issuance of a reissue patent), or six months after receiving notice from the patent holder alleging infringement of the patent, unless the patent holder otherwise consents in writing. The sponsors are hopeful that the Bill will move forward so that it will be on the statute books within two years.

If a post-grant opposition system is going to be successfully introduced into US practice, however, it is vital that it be well resourced. Michael Kirk pointed

out in his testimony before the IP sub-committee at the June hearing that 4.4% of EPO grants were opposed in 2003. Applying the same rate to USPTO grants, that works out at over 8,000 oppositions a year. It's a big number. Which takes us nicely on to the *21st Century Strategic Plan*.

Introduced by then USPTO Director James Rogan in 2002, the Plan is a five-year programme of action designed to put the USPTO in the best shape possible to meet the challenges of the 21st century. On the patent side that means speeding up the patent application process, reducing the long backlog of existing applications, cutting pendency times and improving the overall quality of all patents being granted. Rogan's successor, Jon Dudas, has warned that if the Plan is not implemented the number of patents awaiting examination at the USPTO will increase from 500,000 to one million by 2010.

A key point in getting the Plan implemented is the end of what is known as diversion. This is the practice of redirecting revenue generated by the USPTO from patent and trademark filings fees to other parts of the federal government. Ending diversion, it is argued, would guarantee the USPTO a much higher annual budget and therefore give the scope to hire hundreds of extra staff to cope with the ever-growing number of filings it receives and to give examiners a longer time to assess the merits of applications. Again on the patent side, it is forecast that 300 extra examiners are needed to do this. If recruitment were to be on that scale, this would bring down the backlog and, at the same time, improve the quality of patents that are granted.

When President Bush's 2005 budget proposals, issued in January 2004, stated that there should be no diversions from the USPTO to other parts of the

government during fiscal year 2005, a breakthrough was proclaimed. Then, after the House of Representatives overwhelmingly approved the United States Patent and Trademark Fee Modernization Act of 2003, which legislated for the end of diversion, it looked like real progress was on the cards – especially when the Senate Judiciary Committee endorsed the proposal.

Then came the bombshell: in September the Senate's Appropriations Committee approved a fee increase for the USPTO but stripped provisions from the Bush budget to end diversion of Office funds. Under the new regime, the basic patent filing fee will rise to US\$1,000. The amount payable for each independent claim after the first three goes up from US\$88 to US\$200, with the fee for each claim after the first 20 increasing from US\$18 to US\$50. Because diversion has not been ended, IP owners in the US have reacted angrily to the increases. The full Senate endorsed the committee's decision in November.

The US's problems look as if they are going to be difficult to solve. Congress may want to reduce the cost of patent litigation by introducing an oppositions system but it will not be possible in practice unless there are the funds to make it work. Until diversion is ended though, those funds are not going to be forthcoming, as all the USPTO's resources are directed towards ending the current backlog of patent applications and reducing pendency times. Diversion is not going to be done away with lightly as that will mean cuts elsewhere in the federal budget – cuts that, unlike an under-resourced Patent Office, could cost votes. Perhaps the only way to get the impasse sorted is to involve President Bush directly. But that really would be a challenge, even for the hard-nosed professionals of the US IP lobby.