

Bloomberg

Bloomberg News

June 10, 2011

"Patent 'Honeypot' Demands May Derail Push to Overhaul System (1)"
(Updates with Acacia CEO comment in 15th paragraph.)

By Susan Decker

June 10 (Bloomberg) -- Business groups representing technology companies and startups will oppose a patent bill pending in the U.S. House if the measure fails to include a provision giving the Patent and Trademark Office full control over the fees it collects.

The House may consider next week a measure, H.R. 1249, that would make sweeping changes to U.S. patent law, the cornerstone of which would let the patent office set its own fees and establish a fund that can only be used by the agency.

Representative Paul Ryan, a Wisconsin Republican who heads the House Budget Committee, and Harold Rogers, a Kentucky Republican who heads the House Appropriations Committee, said in a June 6 letter that allowing the agency to set and retain fees "is exactly the wrong direction, given the Republican majority's commitment to" reducing federal spending.

The letter prompted objections from technology and pharmaceutical companies that have been lobbying for at least six years to end lawmakers' practice of steering fees from the patent office. The agency says more than \$800 million has been diverted by Congress since 1990.

"In our view, no legislative change would have greater impact on improving innovation and creating jobs in the United States than ending the possibility of fee diversion forever,"

Innovation Alliance, which represents technology companies including Qualcomm Inc. and Tessera Technologies Inc., said in a statement.

Reduce Application Backlog

If that provision is removed, the group said it would "vigorously oppose" the legislative proposal and "aggressively court other stakeholders likewise to oppose the bill."

In March, the Senate passed similar legislation, 95-5, that would remove the patent office from the normal appropriations process. The agency, which is funded by fees and receives no tax dollars, says it needs the money to hire new workers, reduce a backlog of more than 700,000 applications awaiting a first review and shorten the average 34-month wait to obtain a patent.

Providing additional funding to the patent office "is the single greatest unifying feature of all stakeholders in the patent system," Bruce Artim, director of federal affairs for Eli Lilly & Co. said in an interview. The drugmaker is among companies giving presentations to House staffers this week to explain different provisions of the patent proposal, including the fee issue.

"The prospect of this not staying in the bill is a hypothetical I need not address," said Robert Armitage, Lilly's general counsel, who thinks the fee provision will survive.

Lawmakers' Letters

Calls to revamp the House bill gained momentum June 7, when Rogers and Norm Dicks of Washington, the top Democrat on the appropriations committee, released a letter calling for a delay on a floor vote on the measure "until the legislation's budget and spending provisions are corrected."

Frank Wolf, a Virginia Republican who heads an appropriations subcommittee, and his Democratic counterpart, Chaka Fattah from Pennsylvania, also signed the letter.

Diverting the patent office fees to Congress has "always been a concern of the appropriators," Timothy Tardibono, policy director for Connect, a non-profit group in San Diego that's an incubator for new businesses, said in an interview. "This has been something of a honeypot for non-PTO activities. We will clearly and strenuously oppose the bill if the fee diversion is taken out."

First to File

Connect and Innovation Alliance have so far taken a neutral position on the measure, citing the possible impact of other provisions in the bill, saying it favors big corporations.

Small businesses and groups that work with patent owners to license their inventions have come out against the legislation.

The fee issue "is the only good part of this bill," said Paul Ryan, chief executive officer of Acacia Research, which works with patent owners. "They're saying, 'If you enable us to enact all these horrible provisions that help multinationals, we'll stop stealing your money.'"

In what would be the biggest change to U.S. patent law since 1952, the proposed legislation would give patents to the first inventor to file an application, limit suits over products marked with expired patents, curtail patents on tax-avoidance strategies, and establish a new procedure to take a second look at issued patents.

The bill would require the agency to create an office to help small businesses obtain patents and study the effect of the various provisions on innovation and competitiveness.

Congressional Oversight

"There are a lot of new things in the bill and the ability to implement those new things will not go well without the one piece -- the funding," Tardibono said.

In a response to Ryan and Rogers, Senator Tom Coburn, an Oklahoma Republican who sponsored the fee proposal in the Senate, said in a letter yesterday to the two lawmakers that the proposal includes congressional oversight of the patent office and its money. The diversion of fees, he said, had contributed to the applications backlog and fueled criticism that the agency doesn't perform adequate reviews.

"A number of the major stakeholder groups will likely oppose the bill if there isn't the fee-setting authority and anti-diversion measure included," said Phil Johnson, chief intellectual property counsel at Johnson & Johnson, the world's largest health-products company and a member of the Coalition for 21st Century Patent Reform. His group, which supports the measure, believes the House will pass the bill allowing the patent office to retain its fees, Johnson said.

Hiring Freeze

PTO Director David Kappos this year froze hiring, delayed a program to speed some applications and put off plans to open the agency's first satellite office after Congress passed a \$2.09 billion budget for the agency, at least \$85 million less than requested. A \$2.25 billion effort to rebuild the agency's computer networks to eliminate some routine aspects of patent examinations is \$120 million over budget and behind schedule.

Commerce Secretary Gary Locke said May 31 that it was "critical" to pass the funding provisions, saying it would create jobs. The patent office is part of the Commerce Department.

"Unexamined patents represent untold jobs," Lilly's Artim said. "We don't know whether the next Microsoft or next Eli Lilly might be gathering dust due to a lack of resources."