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HEADLINE: PREPARED TESTIMONY OF
PAUL B. CRILLY, PH.D.
UNIVERSITY OF TENNESSEE KNOXVILLE
BEFORE THE HOUSE COMMITTEE ON JUDICIARY
SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY
RE: H.R. 359, OR WHY NOT A GUARANTEED PATENT TERM

BODY:

H.R. 359 restores the guaranteed patent term U.S. citizens have had since 1790.

H.R. 359 is in compliance with the GATT and Uruguay Round agreements. These agreements require member countries adopt a minimum term.

Patent protection is a constitutional right, not a trade chit to be negotiated away to foreign competitors.

U.S. citizens are entitled equal protection under the law. Persons who file revolutionary patents that require a long examination time should receive the same protection as those that file inconsequential patents that are quickly processed.

* Patent protection, like free speech levels the playing field between the big and little guy. * Patent were put into the U.S. Constitution to enable an individual to create new industries. Dr. Damadian and Thomas Edison are classic examples of this. A limited, but guaranteed patent term allows time for the little guy to develop his manufacturing and marketing infrastructure. Large corporations who develop major products already have an infrastructure to market their products and therefore are not as dependent on patent protection as the startup company.

* The PTO published 19 month application pendency is misleading. This figure is for all office actions. It does not take into account the original filing date. For example, a patent is filed for in 1980, continuations are applied for in 1982 and 1984 and then the patent issues in 1986. The PTO counts the 1982 and 1984 refilings as 2 different applications and thus a process that took 6 years is counted as 3 applications averaging 2 years each.

The patents for the laser, and plastic beverage container took over 20 years to issue. The delay was due to the PTO and not the applicant. Under the 20 years from filing term, these patents would have expired long before they issued.

* There is only anecdotal evidence of submarine patent abuse. There has been no comprehensive analysis of why patents are delayed.

On August 12, 1994, Mr. Lehman claimed there were 627 "submarine patents" that took over 20 years to issue. PTO analysis shows that 422 or 67% of these were held up due to secrecy orders imposed by the PTO. Only 167 or 27% of these could possibly be the fault of the applicant, but even this has not been proven. There has been no analysis to indicate which if any of these 167 cases has hurt competitors.

* It is ludicrous to suggest weakening our patent system will improve our trade imbalance. Weakening our system will merely make it easier for foreign competitors copy our technology.

Paul Benjamin Crilly, Ph.D.

Paul Benjamin Crilly received the B.S. and M.S. degrees in Electrical Engineering from Rensselaer Polytechnic Institute in 1977 and 1978 respectively. He received the Ph.D. in 1987 from New Mexico State University in Electrical Engineering.

Since 1989 he has been an Assistant and then an Associate Professor of Electrical Engineering at the University of Tennessee Knoxville. From January 1994 to July 1995 he was an IEEE-USA Congressional Fellow and served on the personal staff of Congressman Dana Rohrabacher. From 1978 to 1989 he was a member of the technical staff of the Hewlett-Packard Company.

Dr. Crilly has been awarded three patents. He is a member and a Director of the Tennessee Inventors Association (TIA), a Senior Member of the Institute of Electrical and Electronics Engineers (IEEE), Tau Beta Pi, and Eta Kappa Nu. He

has authored or co-authored over 30 technical publications including a paper on patent law that recently appeared in the Harvard Journal of Law and Technology. Hearing Before the Subcommittee on Courts and Intellectual Property of the House Committee on the Judiciary

Wednesday, November 1, 1995

H.R. 359, or Why Not A Guaranteed Patent Term

By

Paul B. Crilly, Ph.D. Associate Professor of Electrical Engineering University of Tennessee Introduction
Abraham Lincoln stated that patent and copyright protection was one of the greatest innovations of Western Civilization. Given the tremendous fruits of the American patent system and that we are in the so-called information age, it seems peculiar that there has been such an unprecedented attack on this system and the patent rights enjoyed by Americans. This attack has been led by those same persons who are downsizing and exporting jobs overseas. They and some of those in authority in the U.S. Department of Commerce view U.S. patent rights as a trade chit to be negotiated away to our foreign competitors. Bill H.R. 359 is corrective legislation that will restore the patent protection Americans have had for over 200 years and it should be quickly passed by the Congress.

H.R. 359 preserves the mechanism so that American entrepreneurs and inventors can obtain venture capital at no cost to the government in order to invent a cure for heart disease, or AIDS; create alternate energy sources or a host of other inventions that improve our lives.

Let me illustrate with a recent example of what the founding fathers had in mind when they put intellectual property protection in our Constitution. One of this committee's recent witnesses, Dr. Raymond Damadian, invented and patented a MRI for medical diagnosis. When Dr. Damadian started his company, he had no corporate or manufacturing infrastructure, only an invention that was protected by the world's best patent system. He then set up a research and manufacturing operation on Long Island to build MRI systems, and in the last 15 years or so, numerous MRI systems have been sold, thousands of jobs have been created, good American jobs I might add, and countless lives have been saved. The profits from this company have stayed in America and the taxes paid have benefited Long Island, New York State and our Federal government. Dr. Damadian's MRI patent created a multibillion dollar industry! During this time, a large Japanese and a major U.S. corporation saw this success and sought to infringe on Dr. Damadian's patent. These companies were unwilling to invest in the R & D or take the capital risk to create a MRI system, and yet once the little guy took the risk and made his venture a success, these companies wanted to take over the market. This story is repeated countless times, and is presently occurring with our biotech industry. Just as free speech protection in our constitution is supposed to level the playing field between the little guy and the big guy, such is the intent of the U.S.

patent system. America's patent system is our crown jewel. In 1993 alone, the U.S. received 20 billion dollars in patent royalties from other countries. Unless H.R. 359 passes, our patent system will be further weakened, our trade imbalance will be further increased and our ability to exploit emerging technologies such as biotech will be significantly damaged. This will kill the proverbial goose that lays the golden eggs.

Not passing H.R. 359 will have the unintended consequence of causing inventors to lose confidence in patent system and revert to trade secrets. This is contrary to public policy where in exchange for a limited exclusionary period, the patent is eventually published for all to use.

I want to present the necessity of H.R. 359, and refute the arguments of its opponents.

Background of H.R. 359

I was an IEEE-USA/AAAS Congressional Science Fellow from January 1994 to August 1995 and was assigned to the office of Congressman Rohrabacher. I had an insider's view on the process in which the patent term was shortened. In early summer of 1994, a constituent told us that there was a proposal to change the patent term and it was part of the GATT enabling legislation. I contacted the House Judiciary Committee staff about this, but they did not give me any specific information except to suggest I contact the office of U.S. Trade Representative (USTR). The USTR person was hesitant to give me any specific information, but after I insisted, she sent me a draft copy of the patent provisions. Sure enough, this bill contained language to eliminate the guaranteed 17 year patent term, and change it to a lesser 20 year from filing term.

It should be noted that during this time, the House Ways and Means, Agriculture, and Foreign Relations Committees were holding hearings on the GATT legislation and had provisions for House members to amend it. I asked the committee staff members about the patent provisions of the GATT enabling legislation, but was always referred to the Judiciary committee. Again, when I contacted the Judiciary Committee, they said hearings were not planned, and there would be no opportunity for other House members to amend this legislation other than through informal meetings in House members offices.

This is absurd! This is legislation that makes a major change in patent protection, but neither the public nor the House members are informed nor were permitted to amend the legislation. Representatives Bentley and Rohrabacher heard

about this and wrote a letter that was signed by 38 House members from both parties to President Clinton protesting these hidden changes to our patent protection. This outcry led to a joint House/Senate hearing, but no markup and no opportunity to amend the bill. The witness list was stacked in favor of the large multinational corporations; those that favored a guaranteed 17 year patent term were permitted only one witness. Because the GATT was on FastTrack, once it was submitted for a vote, it could not be amended. While many members of Congress supported our position, they were unwilling to vote against GATT because of just one provision. And so on December 6, 1994, the GATT enabling legislation became law.

Almost every part of the GATT enabling legislation except for the patent provisions got a full and public hearing with an opportunity for House members to amend the legislation. If the patent provisions could not see the full light of day, then something was seriously wrong!

It was also my observation that those who opposed the guaranteed 17 year patent term were many large multinational companies that were either technology users, or had no use for the patent system and depended on trade secrets. In my experience having worked for a large corporation, these companies will not create revolutionary inventions unless faced with like competition, and feel threatened or at least inconvenienced by the little company that has an innovative product. Starting in 1966 with the Lyndon Johnson Patent Commission, these large entities have sought to gut patent protection, but were unable to do so through the usual legislative process. Only through the GATT fast-track process were they able to change the law.

A patent attorney for a large multinational corporation explained to me the difference between how large versus startup companies view patents. Established companies often use patents as a defensive measure so they won't have to do basic R&D and yet can still participate in the market. That explains in part why companies such as IBM have thousands of patents, many of which are incremental and have no significant economic value. Even when these big companies have patents that turn into major products, they already have the manufacturing and sales infrastructure to quickly establish the market. They don't need much of a patent term. Conversely, a small startup company views a patent as a means of protecting their position while creating a new industry. A limited, but guaranteed patent term allows them to establish a manufacturing and marketing infrastructure and to develop a customer base. Thomas Edison was a classic example of this. He used his light bulb invention to establish an entire electric utility industry. There are still a large number of Thomas Edisons in our society.

Why H.R. 359 and a grant based patent term

For 200 years the United States has had a system where the patent term clock has started the date the patent was granted. In 1790, the patent term was 14 years from grant, but seven year extensions were routinely given. In 1861, the law was changed so the patent term was 17 years from grant. This has been the case until June 1995.

Conversely, the weaker patent systems of Europe and Japan have a term of 20 years from the filing date.

Having a term measured from the filing date is a bad idea, except for those who want to copy. Delays in the application process detract from the term length and thus the patent's economic value. The United States is a country where we have equal protection under the law. Why should a person who has filed a revolutionary patent application which will inherently require a long examination period have a shorter patent term than one who has filed an inconsequential patent that is quickly issued? Let me cite an example of why a 20 year from filing term is a bad idea.

In 1956, Phillips Petroleum applied for a patent on Crystalline Polypropylene, a plastic used in soda containers. Because of delays caused by court proceedings and interferences which are solely under the control of the Patent and Trademark Office (PTO), the patent finally issued in 1983. Twenty seven years after filing. If the U.S. had a 20 year from filing patent term, the Phillips patent would have expired before it issued and Phillips would have lost \$300 million in royalties, and much of their R&D investment.

We often hear that American corporations are not willing to invest in long term R & D, and that many managers and CEOs cannot see past the next financial quarter. Reducing patent protection will only exacerbate this problem.

The PTO and others claim that they will work harder and reduce bureaucratic delays in getting patents issued. I have heard these same promises from the U.S. Postal Service about mail delivery times. While these promises are commendable, we still need a term guaranteed by statute.

On August 12, 1994 and June 8, 1995, PTO Commissioner Bruce Lehman testified before this committee that the average application pendency was only 19 months. He claimed that changing the term from 17 years from grant to 20 years from filing would actually result in a longer term. This is erroneous. Aside from the fact that protection of rights under the law is not based on averages, this statistic is highly misleading. For example, it averages in abandoned applications that never issue and it measures from the current filing date, not the older effective filing date from which the GATT term is measured. According to Lee Skillington, of the PTO, the 19 month pendency is the average for all office actions including patent refilings. It may not take into account the original filing date. For example, consider a patent application that was originally filed in 1980. Continuing applications are filed in 1982 and 1984 and then the patent issues in 1986. The patent office counts the 1982 and 1984 refilings as two different applications. Thus a process

that took effectively six years is counted as three applications averaging two years each. In another example posed to Mr. Skillington, a patent was applied for in 1950. It was under secrecy orders for 40 years. In January 1990, it was refiled and shortly after the original application was abandoned. In June of 1990, the PTO issues the patent. According to Mr. Skillington, because the PTO bases their metrics on what has occurred in any three month period, therefore the pendency of that application would only be six months even though the patent itself took over 40 years to issue. And so, the PTO statistics do not tell the actual pendency of a patent application. However we can look at published numbers from trade groups.

Using pendency figures from a 1994 issue of the Patent Gazette, the average pendency is seven years. In a June 1994 letter from BIO, a biotechnology industry tradegroup, they suggest it takes an average of ten years for a Biotechnology patent to issue. The LASER patent took over 20 years to issue, and as was stated before, the Crystalline Polypropylene patent took 27 years to issue. Let me point out that these long pendencies were not due to any delay on the part of the applicant, but solely due to PTO delays.

Bill H.R. 359 once again levels the playing field between the applicant and the patent examiner. The American patent system awards patent protection to the rightful creator and encourages patents that can be defended against infringement. As is often done, a patent examiner may issue restrictions or reject some or all of the applicants claims and the applicant has to go through an appeals process. With this new 20 year from filing term, these delays will detract from the patent term and its economic value. Now with the new rules, the applicant is at the mercy of the patent examiner. Furthermore, if the Congress passes H.R. 1733, and so adopts an 18 month pre-grant publication of the patent application, large companies who are well stocked with attorneys by citing additional prior art, can challenge the application thus causing its issuance to be delayed and shortening its term. The American entrepreneur is at the mercy of his competitor and the big multi-national corporations. Criticisms of H.R. 359

Opponents of H.R. 359 claim this bill promotes so-called "submarine patents." Few can define this term, but it is generally believed that these are patents that have issued after a significant delay in the PTO. The critics attribute this delay due to delays by an applicant.

Based on the previous testimony to this committee and letters from organizations such as Intellectual Property Owners (IPO) and the National Association of Manufacturers (NAM), there is only anecdotal evidence that any applicant has caused delays. There has been no comprehensive analysis of why patents are delayed. An administrative organization such as the PTO has many delays inherent in its operation. Patent examiners have discretion in generating restriction requirements which necessitate the filing of divisional applications and can cause significant delays. Clerks lose files. Applicants have the right to appeal unjust decisions and file continuing applications. All of these proceedings have evolved since the patent system was created in 1790. Those who profit from reducing the patent term charge that the inventors cause the delays. This is erroneous, the PTO is a powerful government entity that controls its own operations. It drafts its own rules and publishes its own procedures. It is not in the interest of applicants to intentionally delay the issuance of their patents. Inventors want their patents issued as quickly as possible to protect themselves against copiers and to attract venture capital. Patent pending offers no protection.

Former Patent Commissioners Gerald Mossinghoff and Donald Banner were not aware of any submarine patents. On August 12, 1994, Commissioner Lehman testified before this committee that the law on patents had to be changed because inventors had elongated the process and created 627 submarine patents in 22 years. On April of 1995, I asked the PTO for the specific reasons why these 627 applications were held up. They could not tell me the reasons, and claimed it would take their entire staff months of time to find the specific reasons for these delays. Again this is absurd! Commissioner Lehman uses statistics to advocate weakening our system, but cannot explain his numbers.

After numerous requests and a GAO audit, the PTO has finally given the reasons why these cases were delayed. Attached is a pie chart of their data. Sixty Seven percent (67%) of these delays were caused because the PTO imposed secrecy orders on the applications and thus prevented them from issuing. Another six percent (6%) should not have been listed or were delayed for reasons other than the applicant. Twenty seven percent (27%) remain unexplained, but there is no analysis that they are submarine patents. These 167 allegedly submarine patents represent only 0.0073% of the 2.3 million patents that did issue during this 22 year period. Further, there is no analysis to indicate which (if any) of these 167 patents had any commercial SUCCESS.

As the data indicates, the excuse for changing the law because of submarine patents is based on faulty reasons and at best anecdotal arguments. We should not undermine our system of intellectual property rights based on a minuscule 0.0073% of cases that apparently have had little if any effect on industry.

Finally, when I worked for Congressman Rohrabacher, many from the large multinational companies claimed they only opposed our bill because of submarine patents. While I think this was a red herring, Mr. Rohrabacher promised to include any language in his bill that would correct intentional delays by the applicant. These groups stated they did not oppose a guaranteed patent term and promised they would send us anti-submarine language to be added to H.R. 359. As

far as I know, nothing productive has resulted. In fact, some representatives from these groups admitted off the record they had no use for patents.

The Uruguay Round GATT agreement stated that every country had to have a patent term of at least 20 years from filing. According to Clayton Yeutter, USTR under President Reagan, the intent of the GATT patent provisions were so that each member country would have some minimum level of intellectual property protection. The Uruguay Round GATT agreement did nothing to preclude a country from adopting a longer term. H.R. 359 puts the patent term at 20 years from filing or 17 year from grant, whichever is longer. This bill complies with that GATT agreement. In fact from December 1994 until June 6, 1995, the patent term by law was 20 years from filing or 17 years from grant, whichever is longer, according to the GATT implementing legislation.

According to a 1993 GAO study commissioned by Senators Rockefeller and DeConcini, many U.S. companies report significant difficulties in obtaining adequate protection of their patents in Japan and other countries. These criticisms are valid. It takes on average of over seven years for someone to get a patent in Japan, and even when granted, it may not be adequately enforced. For example, in 1960, Texas Instruments filed the patent for the integrated circuit in Japan. This was known as the "Kilby Patent", after its inventor Jack Kilby. It took 17 years for the Japanese government to issue the patent. According to former PTO Commissioner Donald Banner, this may explain why only 14% of U.S. origin patents are eventually filed in Japan. However, the opponents of H.R. 359 respond by saying that we should weaken our patent system and hope these countries improve their system. Nothing could be further from the truth.

The U.S. is one of the few countries where intellectual property is part of its constitution, a protected Constitutional right. Most other countries, particularly Japan use patents as a statement of industry policy. It is ludicrous to suggest that weakening our patent system and allowing foreign companies easier access to our technology will reduce our trade imbalance or create additional U.S. jobs. Making it easier for a thief to take your property will not improve his behavior or your assets!

Conclusion

The only intent of H.R. 359 was to insure that Americans continue to have a guaranteed patent term, and continue to have access to venture capital, as investors will again have a known period for a return on investment. H.R. 359 does not extend the patent term, but only keeps it from being shortened. America needs a strong patent system to remain competitive. H.R. 359 is important to America's competitiveness.

THE CASE FOR A STRONG PATENT SYSTEM

Dana Rohrabach^F and Paul Crilly^{**}

INTRODUCTION

Today, as we are zapping our way into the information age, intellectual property and its protection have become essential to the well-being of our people. It is extraordinary then that the Clinton Administration has given away to foreign governments and multinational corporations intellectual property protection relied upon by American inventors and investors. Whatever the motive behind the fundamental changes being made in our patent laws, our people are the losers.

The attack on United States patent rights started under the cover of the recent additions to the General Agreement on Tariffs and Trade ("GATT").(1) Known as the Uruguay Round, it required that each member country have a minimum patent term of twenty years measured from the filing date of the application.(2) In response, Congress passed implementing legislation(3) to ensure that the laws of the United States conformed to these new requirements.

Buried deeply in the implementing legislation was a provision that changed the patent term from seventeen years from the granting of a patent to a maximum of twenty years from the filing of the application.(4) This provision was not well publicized until July, 1994, when the Office of the United States Trade Representative reluctantly gave our office a draft copy of this legislation. The resulting public and congressional furor over this provision forced the Senate and House Subcommittees on Intellectual Property to hold hearings on this issue.(5) The result was a "Rube Goldberg" fix to stop the term clock for up to five years for delays caused by specific administrative or court appeals.(6) While this compromise was better than what was originally drafted, it did not fully guarantee a fixed patent term by statute. Unlike other pieces of the GATT implementing legislation, the intellectual property provisions never had a full and public markup. The GATT bill was submitted on Fast Track and no amendments were allowed.(7) Therefore, those who opposed this one specific provision had to vote against the entire trade bill. Most were not willing to defeat GATT because of this single provision.

The negative effects are not hard to predict. If the effective shortening of American patent terms goes into effect on June 8, 1995, as provided by the GATT implementing law,(8) private research and development funds will dwindle as shorter patent terms and weaker patents result in reduced royalties from new inventions. Business startups that are predicated upon innovative patents will be especially adversely affected. Universities that license the benefits of their

research and technology transfers from our federal laboratories will also be won. The only beneficiaries will be foreign and multinational corporations who will pay reduced royalties to America's inventors and investors.(9)

I. TWENTY YEARS FROM FILING TERM

The concept of a fixed and guaranteed patent term has existed for over 200 years. Since 1790, America has had a patent term measured from its grant date which guaranteed a fixed period of at least fourteen years of protection after the patent was granted. (10) Congress later added a provision for extending the term for another seven years.(11) Partly because extensions were so common, the law was changed in 1861 so the patent term was seventeen years from grant.(12) Conversely, the weaker European and Japanese patent systems have a twenty-year term measured from the filing date.

Starting the clock at filing has always been a bad idea. When the term starts at the filing date, any delays in the application process will detract from its length and therefore its economic value. For example, in 1961 Texas Instruments filed the basic patent in Japan for the integrated circuit, known as the "Kilby patent" after its inventor, Jack Kilby.(13) The Japanese Patent Office ("JPO") required that the application be divided into fourteen separate parts of which twelve were ultimately rejected. The first patent was granted in 1977, approximately seventeen years after it was filed. It thus expired just a few years after it was granted. (14) There may be a significant time delay between filing and grant both here and abroad. According to a General Accounting Office ("GAO") report, on average it takes five to six years from the filing date to get a patent issued in Japan.(15) Similarly, although the United States Patent and Trademark Office ("PTO") claims an average pendency of only nineteen months,(16) these pendency statistics are misleading. Revolutionary patents in areas such as biotechnology, which often require a relatively long examination process, are averaged with the ninety percent of patents which are relatively incremental or inconsequential. This simple averaging itself skews the statistics. An inventor who files a revolutionary and complicated patent that takes years for the PTO to process should not be in the same category as one who files a relatively simple and inconsequential application that is quickly processed.

But even more damaging to the credibility of the PTO's use of statistics is that the claimed nineteen-month average is based on the most recent continuation date, and not the original or ancestral filing date. For example, consider a patent application originally filed in 1980. Continuations are applied for in 1982 and 1984, and then the patent issues in 1986. The patent office uses the 1982 and 1984 refilings as two additional applications. Thus a process that effectively took six years is counted as three applications averaging two years each. The PTO uses these metrics to overrate their efficiency of applications processed.

The PTO has not issued official pendency figures based on when original patent applications were filed, so we can only use reported experiences. Using pendency figures of thirty patents from a recent 1994 Patent Gazette, the average pendency period is seven years. (17) A letter from BIO, a biotechnology industry group, suggests that many of their member company patents take an average of ten years to issue. (18) Starting the clock from filing would be a financial disaster for many of these patent holders. In 1953, Phillips Petroleum applied for a patent on Crystalline Polypropylene, a plastic used for beverage containers. (19) Because of delays caused by court proceedings and interferences (which are solely under the control of the PTO), the patent issued to Phillips in 1983.(20) According to Mlen Richmond, the company's Manager of Patent and Licensing, Phillips so far has collected \$300 million in royalties.(21) This return on investment would not have been possible if the United States had a twenty-year-from-filing term, because the patent would have expired in 1976.

Changing to a term based upon filing date will damage the value of our patents in other significant ways. The American system is based on awarding broad protection to the rightful creator and encouraging and providing a means to make the strongest possible application that can be defended against infringers. United States public policy regards patents not as trophies, but as a means for the creation of new industries and jobs. When an inventor files a patent, he often continues to perfect his invention. As new improvements are made, the applicant can file continuations-in-part which will strengthen his technology and provide a better defense should competitors challenge or infringe on his patent. In some cases, the patent examiner may require a divisional application in which the inventor must refile and break his original application into two or more separate parts. The PTO supports these refilings because they are a good revenue generator and inflate their productivity numbers.

The above procedures encourage solid applications and may be required by the PTO but will significantly detract from the patent's life with a term based upon the filing date. However, the above actions do not detract from the patent's life with a seventeen-year term from grant. Under a term based upon filing date, the inventor will be at the mercy of the patent examiner and will take any protection offered by the examiner in order to prevent unnecessary delays in the patent issuing process. The end result will be weaker applications that will be more susceptible to infringement.

Independent inventors, who are often the backbone of new companies, will be especially vulnerable against large multinational corporations who can afford to mount continuing legal challenges.

II. SUBMARINE PATENTS AND THOSE MALICIOUS INVENTORS

Proponents of the twenty-year-from-filing patent term, such as the Intellectual Property Owners ("IPO"), a patent lobbying group of large multinational corporations, claim this change eliminates so-called "submarine patents." These are patents that have issued after a significant delay in the PTO. It has been conceded that there are only a few "submarine patents." The reasons for the delays have never been fully analyzed. However, it is clear that an administrative organization like the PTO has many delays inherent in its operations. Patent examiners have discretion in generating restriction requirements which necessitate the filing of divisional applications and cause significant delays. Clerks lose file histories. Applicants have a right to appeal unjust decisions and to file continuing applications. All of these proceedings have evolved since the original patent system was started in 1790.

Those who profit from cutting down patent terms charge that the inventors cause the delays. Clearly, this is erroneous because the PTO, a powerful government entity, has the ability to control its own operations. It drafts its own rules,(23) and it publishes its own procedures.(24)

Also, it is not in the interest of the majority of applicants to intentionally delay the issuance of their patents. Most inventors want their patents issued as quickly as possible to protect themselves against copiers and to attract venture capital. A patent pending on a device offers no protection. Many, if not most, license agreements provide that no royalties would be payable if a patent is not issued within two to three years, and few, if any, such agreements call for royalties payable until after the patent is issued.

Gerald Mossinghoff, former United States Commissioner of Patents under President Reagan, was not aware of any submarine patents.

(25) According to the testimony on August 12, 1994, Bruce Lehman, United States Commissioner of Patents, stated that from 1971 to 1993 there were 627 cases out of approximately 2.3 million patents issued (or 0.027%) where the patent pendency has exceeded twenty years.(26) Commissioner Lehman implied that these were filed by malicious persons interested in elongating their patent term. Examination of these allegedly submarine patent cases by Donald Banner, former Commissioner of Patents under President Carter, reveals that 257 of these are owned by the U.S. government and their issuance was probably delayed because of secrecy orders. The remaining 370 applications may have been held up for reasons other than intentional delays by the applicant such as interferences and secrecy orders imposed on the applicant.(27) A letter received from the IPO cites a few examples of alleged abuses, primarily by a Jerome Lemelson who had a patent in process for over thirty years.(28) Obviously, the IPO has not stated his side of the story. Why did it take the PTO so long to process his patent application? Even if abuses do occur, what has been presented is anecdotal and should not be the basis of undermining an entire institution that has made the United States the world's technological leader.

When explaining how submarine patents occur, Commissioner Lehman stated that when an inventor receives a Notice of Allowance from the PTO, informing him the patent will soon issue, the inventor then refiles, and thus prevents his patent from issuing.(29) The PTO could easily prevent this abuse by declining to accept such a continuing application. These reforms to control abuses can be made administratively without having to reduce the seventeen-year patent term.

EIGHTEEN MONTH PUBLICATION

Reducing the length and certainty of the term is only the first wave of the attack on patent rights. Under the American system, patent applications are kept confidential until the patent is issued. This protects the applicant from competitors, particularly large corporations who can afford a battery of attorneys to challenge the application or flood the patent office with incremental patents to diminish the value of the original patent, as is often done in Japan. (30) Now there is serious consideration being given to publicizing the application eighteen months after filing whether the patent is issued or not.(31)

This is obviously an invitation for thievery. Setting an arbitrary eighteen-month publication date will have the unintended consequence of causing inventors to abandon the patent system and revert to a system of trade secrets. Today, because the application is kept confidential, the applicant can still keep his idea a trade secret if his patent application is rejected.

IV. PRIOR USER RIGHTS

Prior user rights give the person who uses an idea, but either never developed it or kept it a trade secret, the right to infringe another's patent. While there is nothing illegal about trade secrets, having a patent allows the owner to prevent infringement. Weakening our patent system to allow for prior user rights not only encourages trade secrets and stifles the dissemination of technology, but devalues the property of the one who has gone to the trouble and expense of obtaining the patent and disclosing it to the public.(32)

V. BENEFITS OF STRINGENT PROTECTION

It's not just money. It's our future and it always has been. Americans have always placed a high value on this unique form of property rights. A system to protect intellectual property was even written into our Constitution.(33) This should be no surprise considering that Benjamin Franklin, Thomas Jefferson, and so many of our nation's founding

fathers were, after all, technologists. They recognized that for our vast and underdeveloped country to grow and for its citizens to prosper, our nation needed both technology and freedom.(34)

Our opportunity was to be limited only by our imagination. The product of our intellect, however, would be protected by law. America's strong patent laws have served to encourage investment and technological research that has kept our country in the forefront of human progress. (35) All of this was accomplished because Americans were creating, or at least utilizing, the best technology from steam engines and reapers to microprocessors. Thomas Edison's invention of the electric light bulb not only provided an alternative to gas and oil lamps, but spawned an entire utility industry. His motion picture and phonograph patents created a vast entertainment industry. The transistor, integrated circuit, and microprocessor made possible a multi-billion dollar electronics industry. Millions of Americans owe their jobs and prosperity to industries created by America's innovators. The competitiveness of our country is tied to our ability to take the lead technologically.

Today, for example, while other countries are trailing in biotechnology development, America's biotechnology companies are in the forefront of this historic leap.(36) Biotechnology is, after all, an American creation, financed by private American capital and brought to market by Americans. The German government tried to develop a biotechnology industry but failed, turning instead to American technology.(37) Given the German result and similar experiences in the rest of Europe and Japan, government subsidization of industry startups has had dubious success. Many argue that in this fast-moving technological age when: product life cycles may be a matter of months or a few years, the traditional patent system is obsolete.(38) Nothing could be further from the truth. Patents are designed to cover broad inventions such as the transistor, integrated circuit, microprocessor, and magnetic resonance imaging. While all of these and other revolutionary inventions continue to be improved, the basic patented concepts behind them are still crucial. The tremendous explosion in the sheer amount of information available to an ever-increasing number of people suggests the creation of even more breakthrough technology. While pharmaceutical and biotechnological innovations may take years and billions of dollars to develop, once they are on the market it is relatively inexpensive for competitors to copy these products. Fortunately, our patent system acts as a strong shield protecting America's innovators from this theft, thus maintaining the incentive for the investment of venture capital in research and development. So it should be no surprise that there are both domestic and international forces at work to weaken America's patent system.

If these efforts are successful, United States patent holders, our technology creators, and their financiers will be robbed of billions of dollars in royalties by those who use technology. Huge foreign corporations will be off the hook for the licensing revenue they would owe Americans under current law. The end result will be American technology being used against us, for free, just as the incentive for future investment in domestic technology creation is reduced.

VI. PATENT HARMONIZATION

The stated goals of patent harmonization are to strengthen the intellectual property laws of other nations, and to make it possible for one patent application to be valid worldwide.(39) Who could oppose that? In theory it is laudable. In practice, patent harmonization has become a Trojan horse that is being used to whittle down America's strong patent system so it conforms to the weaker Japanese and European systems.

Yes, uniformity of law throughout the world has a ring to it. However, harmonization is being paid for by decreasing our guaranteed patent term. Uniformity merely for its own sake and without any quantitative benefit to Americans does not make any sense.(40) If the objective is to have a uniform worldwide patent system, other nations should adopt the stronger United States model.

Unfortunately, the Clinton Administration and world leaden view patent harmonization and patent laws as just another bargaining chip in trade negotiations. Just as United States trade negotiators would not consider trading away constitutional freedoms such as free speech, neither should they trade away intellectual property rights. According to testimony before the Senate Subcommittee on International Trade by the GAO, the laws and cultures of the Japanese and American patent systems are widely different.(41) "In the U.S. the focus of the patent system is to protect the individual patentee[s] and provide them with exclusive rights to their inventions. By contrast, many experts contend the focus for the Japanese patent systems is to promote industrial development by disseminating technology.(42)

Intellectual property in the United States is indeed that, property, whereas in Japan, it is just another piece of the government's industrial policy subject to political whims.

This same report states that United States companies that do file patents in Japan have expressed a high degree of dissatisfaction with the Japanese patent system.(43) These problems include lack of enforcement, relatively long delays in issuance, the narrower scope of patent protection granted, the cost, and the difficulty of obtaining patent protection for pioneering inventions.

There is nothing to suggest these conditions will improve if the United States weakens its own patent system. The two cultures are so widely different that it would be too much to expect that superficial legislation and trade agreements will

improve the Japanese patent system for foreigners who expect the same protection in Japan they now receive in the United States. By the time Americans understand the problem, it may be too late.

CONCLUSION

On January 4, 1995, the Dole-Rohrabacher bill" was introduced to restore the patent term to the longer of seventeen years from grant or twenty years from filing. This guarantees patent holders seventeen years of protection, the right of Americans before GATT, and what we still have under transitional arrangements until June 8, 1995. Furthermore, the Dole-Rohrabacher bill complies with GATT.

As the United States fully enters into both the information age and global markets, harmonizing our patent system with those like Japan would be a fundamental mistake. The PTO is failing in its mission to protect the interests of our country and the rights of our people. It is time for Commissioner Lehman to abandon the practice of international patent policy appeasement and act to protect the value of American intellectual property.

Footnotes:

* United States Representative (r-CA Member, House Committee on Science. ** Congressional Science Fellow on leave from the University of Tennessee Knoxville, Department of Electrical and Computer Engineering. 1. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1143. 2. Annex 1C, Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 33, id. at 1210. 3. Uruguay Round Agreements Act, Pub. L. No. 103-465, 1994 U.S.C.A.N. (108 Stat.) 4809 [hereinafter GATT Implementing Legislation]. 4. Id., ' 532(a)(1), 108 Stat. at 4984 (to be codified at 35 U.S.C. ' 154(a)(2)). 5. GATT and Intellectual Property: Joint Hearings Before the Subcomm. on Intellectual Property and Judicial Administration of the House Comm. on the Judiciary and the Subcomm on Patents, Copyrights, and Trademarks of the Senate Cornra, on the Judiciary, 103d Cong., 2d Sess. (1994). 6. GATT Implementing Legislation, supra note 3, ' 532(a)(1), 108 Stat. at 4984 (to be codified at 35 U.S.C. ' 154(b)). 7. H.R. Res. 564, 103d Cong., 2d Sess. (1994). 8. See Patent Office Official Says Final Rules to Implement TRIPs to be Issued by May, Int'l Trade Rep. (BNA), Mar. 15, 1995, at 515 (quoting Richard C. Wilder, attorneyadviser of the PTO's Office of Legislative and International Affairs). 9. ROBERT RINES & SKIP KALTENHUESER, UNCORKING THE GENIE BOTTLE (forthcoming Feb. 1995). 10. Act of Apr. 10, 1790, 1 Stat. 109, 110' 1. 11. Act of July 4, 1836, 5 Stat. 117, 124-25 ' 18. 12. Act of Mar. 2, 1861, 12 StaL 246, 249 ' 16. 13. See Leslie Helm, Chip Manufacturer is Denied Patent by Japanese Court; Computers.' Ruling that Fujitsu Chips Don't Infringe on Texas Instruments' Patent May Ignite Trade Concerns, L.A. TIMES, Sept 1, 1994, at D2. 14. See David P. Hamilton, Texas Instruments'Loss in Patent Case Sets Up Extended Baffle With Fujitsu, WALL ST. J., Sept. 1, 1994, at BS. 15. See Intellectual Property Rights, U.S. Companies' Comparative Patent Experiences in Japan, Europe, and the United States: Hearings Before the Subcomm. on Int'l Trade of the Senate Comm. on Finance, 103d Cong., 1st Sess. (1993) (statement of Alan I. Mendelowitz, Director, International Trade, Finance, and Competitiveness Issues, General Go v't Div., U S GEN. ACCT OFF Doc No GAO/T-GGD-93-36, July 22 1993) [hereinafter Mendelowitz]. 16. Id..1986. The patent office uses the 1982 and 1984 refilings as two additional applications. Thus, a process that effectively took six years is counted as three applicatious averaging two years each. The PTO uses these mettics to oven-ate their efficiency and the quantity of applications processed. 17. PAT. AND TRADEMARK OFF. OFFICIAL GAZETTE (Aug. 9, 1994). 18. Letter from Cad B. Feldbaum, President, and Charles E. Ludlam, Vice President for Gov't Rel., Biotechnology Industry Organization (BIO), to Mickey Kantor, U.S. Trade Representative (June 27, 1994) (on file with the Harvard Journal of Law and Technology). 19. See Phillips Patent, PLATT's OLIGRAM NEWS, Mar. 17, 1983, at 5. 20. See Phillips Finally Wins it Patent , CHEMICAL WK., Mar. 23, 1983, at 13. 21. Interview with Allen Richmond, Manager of Patent and Licensing for Phillips Petroleum, in Washington, D.C. (Feb. 10, 1995). 22. See Joint Hearings of the House Judiciary Subcomm. on Intellectual Property and Judicial Administration and the Senate Subcomm. on Patents, Copyrights, and Trademarks, 103d Cong., 2d Sess. (1994) (statement of Robert E. Muir on behalf of the National Association of Manufacturers). 23.37 C.F.R. " 1-150 (1994). 24. PAT. AND TRADEMARK OFF., U.S. DEPT OF COM., MANUAL OF PATENT EXAMINING PROCEDURES (5th ed., 16th rv., 1994). 25. See Hamilton, supra note 14. See generally Hearings before the Subcomm. on Intellectual Property and Judicial Administration of the House Comm. on the Judiciary, 103d Cong., 2d Sess. (1994) (statement of Bruce Lehman, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks) [hereinafter Lehman]; Hearings before the Subomm, on Intellectual Property and Judiciat Administration of the House Comm. on the Judiciary, 103d Cong., 2d Sess. (1994) (statement of Gerald Mossinghoff, former Commissioner of Patents). 26. Lehman, supra note 25. 27. Telephone Interview with Donald Banner, former Commissioner of Patents (Mar. 20, 1995). 28. See Yomiuri Shimbhn, First-To-File vs. First to Invent on Patent, THE DAILY YOMIURI, Feb. 1, 1994, at 9. 29. Lehman, supra note 25. 30. Mendelowitz, supra note 15. 31. See, e.g., Bruce Rubenstein, Novell's Mother of All Prior Art Suits Nears Court Date: Billings Well Be Either a Billionaire or Broke, CORPORATE LEGAL TIMES July 1994, at 17; Patent Office Wants Authority to Print Pending Applications, FEDERAL TECHNOLOGY REPORT, Sept. 1, 1994, at 3. 32. See Patent User Rights: Hearings before the Subcomm. on Intellectual Property and Judiciary

Administration of the House Comm. on the Judiciary, 103d Cong., 2d Sess. (1994) (statements of Teri Willey, Associate Director, Purdue Research Foundation, and Arnold Newman, President, Synexus Corporation). 33. U.S. CONST. art. I, ' 8 ("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 "). See generally BRUCE W. BUGBEE, GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW 152 (1967). 34. See Herbert Hovenkamp, Technology, Politics and Regulated Monopoly: An American Historical Perspective, 62 TEX. L. REV. 1263 (1984). 35. See Lawrence M. Sung, Comment, Intellectual Property Protection or Protectionism? Declaratory Judgement Use by Patent Owners Against Prospective Infringers, 42 AM. U. L. REV. 239, 244 (1992). 36. See Joan C. Hamilton, Biotech: America's Dream Machine, BUS. WK., Mar. 2, 1992, at 6. 37. See David G. Scalise & David Nugent, Parenting Living Matter in the European Community: Diriment of the Draft Directive, 16 FORDHAM INTL L.J. 990 (1993). 38. See, e.g., DENNIS UNKOVIC, THE TRADE SECRETS HANDBOOK (1985). 39. See W. John Moore, Reinventing Patents, THE NAT'L J., Mar. 20, 1993, at 694. 40. See letter from Gabriel P. Katona, law firm of Schweitzer Cornman & Gross, to Steven M. Shore, President, The Alliance for American Innovation (Feb. 1, 1995) (on file with the Harvard Journal of Law and Technology). 41. Mendelowitz, supra note 15. 42. Id. 43. Id. 44. H.R. 359, 104th Cong., 1st Sess. (1995); S. 284, 104th Cong., 1st Sess. (1995) (introduced Jan. 26, 1995).

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HON. DANA ROHRABACHER
BEFORE THE HOUSE COMMITTEE ON JUDICIARY
SUBCOMMITTEE ON COURTS & INTELLECTUAL PROPERTY
REGARDING H.R. 359 AND H.R. 1733

BODY:

For 134 years, the United States guaranteed a minimum patent term of 17 years from date of grant of a patent. Last year, a provision was snuck into the GATT implementing legislation to eliminate the guaranteed minimum term and replace it with a term of 20 years from filing. This was not required by the GATT agreement, but was done as a result of a deal made between two unelected officials at the U.S. and Japanese patent offices. To this day, the Congress has not had an opportunity to vote up or down on this issue. That's why I greatly appreciate the opportunity to have a hearing on legislation, H.R. 359, which will correct this injustice.

H.R. 359, cosponsored by myself and 196 of our colleagues in the House of Representatives, will establish a patent term of 20 years from filing or 17 years from grant, whichever is longer. It also contains a provision to publish patent applications, if an inventor files a continuing application 60 months after an initial filing. The bill is fully consistent with the GATT agreement, which stipulated that all nations must establish a patent term of at least 20 years from filing. The legislation is supported by every group of independent inventors in the country. Their rights are being systematically attacked by some very powerful interests. We should not allow that to occur, because independent inventors have always provided the creative impulse to our economy. Independent inventors have given us everything from Herman Hollerith's tabulating machine to Lee DeForest's vacuum tube to Edwin Land's Polaroid camera to Raymond Damadian's Magnetic Resonance Imager. They created entire industries because they had an exclusive right to their inventions for a set period of time.

H.R. 359 is supported by small business groups, including National Small Business United and National Association for the Self-Employed; by universities, including the Association of University Technology Managers, M.I.T. and Harvard; by the National Venture Capital Association; by biotechnology companies, including AMGEN and BIOCROM, the leading group of small biotechnology companies in America. These people create cutting edge inventions, which routinely take longer than three years to issue into patents. In fact, many biotechnology patents take as long as ten years to be processed because there remains a shortage of examiners with the appropriate expertise.

I cannot support H.R. 1733, the Patent Application Publication Act, which is also under consideration today.

Unrestricted publication of all patent applications 18 months after filing is an invitation to the whole world to steal our technological ideas. Publication opens up the possibility of pre-grant opposition, which would seriously erode the term of patent protection in a 20-year-from-filing system. Early publication will prevent independent inventors from having the time needed to develop dependent inventions based a breakthrough idea. Finally, H.R. 1733 establishes an unworkable and bureaucratic system of "patent term extensions," while still not providing a guaranteed minimum term. Our nation's founding fathers knew the importance of inventors and their ideas. Thomas Jefferson was a technologist. You should visit Monticello if you have a chance to see some of the products of his mind and imagination. Benjamin Franklin is renowned even today for his contributions. They valued knowledge as an end in itself. Thomas Paine, in *The Rights of Man*, said, "Though man may be kept ignorant, he cannot be made ignorant." Knowledge, they knew, was a necessary condition for liberty. These men also knew that the most effective way to guarantee progress was to respect and protect new inventions, so they created a patent system which was second to none. Their vision helped America out-compete its old-world rivals and become the great and prosperous nation we know today. Even after World War II, facing competition from Third World nations paying wages of 25 or 50 cents an hour, we have continued to out-compete everyone throughout the planet.

That's because we have maintained our technological lead on the world. It is technology and knowledge that have given us the competitive edge throughout our Nation's history. It is not that our people were necessarily willing to work harder or were so much smarter than everyone else, because many people around the world work very hard and are just as smart as Americans. But if you look at American history, you see a difference. The United States was the country that developed the reaper which revolutionized the harvesting of crops. We took the steam engine, originally developed by the ancient Greeks, and turned it into an engine for progress and prosperity. We developed the telegraph and the telephone.

It's no coincidence that America has been the source of so much invention and that America is the only country in the world to put patent protections into its constitution. We believe in individual freedom, which guarantees all of us the right to control our own destiny and think and speak and worship and raise families as we wish. And we believe that property, including intellectual property, should be respected and protected as a matter of right. Technology and freedom are different sides of the same coin in America, by which we have remained prosperous and become the greatest country on Earth.

Patent protection is absolutely crucial to the success of the United States. The debate in the Congress today over the direction of the patent system will have an enormous impact on this nation's economic future. Billions of dollars of royalties are at stake. More than that, our view of America is at stake. Will we continue to be a nation which rewards and protects the ideas created by Americans? Will we maintain our commitment to progress and to the independent mind? Or will we abandon this ideal and allow inventors to be ripped off by those who simply do not want to pay as much in royalties as they do now?

I, along with a majority of the House, voted for "fast-track" authority for the GATT agreement. This meant that the administration had the right to negotiate this trade agreement, which would then be voted on as a single vote. It was all or nothing. The implementing bill would be presented to us, it would be one vote, up or down, and we could not vote to amend what was presented to us. This arrangement meant that the trade negotiators could hash out all the details and come up with the best agreement they could get for America. Of course, it also implied that nothing would be put into the GATT implementing bill which wasn't required by the actual agreement.

Congress and the American people were lied to, and we were betrayed. The GATT agreement said that each country had to have at least 20 years of patent protection from the time of filing of a patent application. We could put on extensions if we wanted. We could have merely set a term of 20 years from filing or 17 years from grant, whichever is longer. That would have been consistent with the status quo in America for over a century and would have protected inventors and would have been completely consistent with the GATT agreement. In fact, we had such a term for an interim period of seven-and-a-half months until June 8, 1995. In the weeks before June 8, the Patent Office was overwhelmed with tens of thousands of applications from inventors who did not wish to lose their guaranteed 17 years of protection.

I personally feel betrayed that the GATT agreement didn't include a term of 17 years from grant or 20 years from filing. I voted for the GATT fast-track authority. GATT did not require that our country diminish the patent protection enjoyed by our citizens.

Yet a 20-year from-filing term was placed in the bill in hopes of passing this major change in patent law without full debate, without full scrutiny. I was even denied the right to even see the language of the proposed legislative change until shortly before the vote was scheduled. As it turned out, the Administration was forced to stand off and the vote was delayed, which gave us some more time. But GATT passed, with the 20-year-from-filing term which could not be amended out under the fast-track rules, and now that's the law of the land.

Before, with the 17-year-from-grant term, if an American inventor applied for a patent, no matter how long it took the Government to issue that patent, the inventor still owned that patent for 17 years. If the Patent Office took five or ten or fifteen years to issue the patent, it didn't matter, because the inventor and the investor still had 17 years of protection guaranteed to them. That was an important part of our country's commitment to protect and nurture the genius of our people.

The GATT law changes that dramatically. The change is designed to appear to be of little consequence. In fact, it appears to elongate the time of patent protection. Now, if an inventor's patent is issued immediately, he will have 20, not 17 years of full protection. That would be great if patents were issued immediately, but they are not issued immediately. In fact, almost every technological breakthrough patent has taken years and years to be issued by the Patent Office. Under the new law, the microprocessor patent would have received three years, not 17 years, of patent protection. The polypropylene patent, which the Patent Office issued after 27 years of delay, would have gotten zero protection. Many small biotechnology firms are based on one or two key patents which they own but which commonly take six, eight or ten years to issue. The biotechnology companies will be severely hurt by the new term.

What does this mean? Again, it means billions of dollars that should be going into the bank accounts of American inventors and American investors will now end up in the bank accounts of multinational and foreign corporations. It also means that technology that Americans created and developed will be used against us by our competitors since real patent protection will be reduced. It is, in short, one of the greatest ripoffs in history. That's what happened in the GATT implementing legislation and something that, unless we act, the perpetrators of this crime will get away with. Friends, I tell you tonight that they will not get away this ripoff of inventors. We have to admit that some of the people who voted for this and supported it probably do honestly believe that it will have a positive effect, in stopping submarine patents and harmonizing our patent laws to those of other countries. It is true that the United States, Japan and Europe have different kinds of patent law. We have different laws to protect other rights as well, freedom of speech, freedom of religion, freedom of the press. There are different laws protecting our rights in the United States, and we pride ourselves that we have stronger protections of our rights than other countries.

However, Bruce Lehman, head of our Patent Office in the United States, has decided that harmonization of patent laws is really an important thing in and of itself. So he agreed to put this change into our patent law. He did this in agreement with the Japanese, who have wanted to make this an other changes in our patent law for many years. His agreement with the Japanese Patent Office had to be enacted by Congress, so he had to find a way to get this major change enacted. So he worked to get it slipped into the GATT bill. What did Bruce Lehman, our negotiator, looking our for American interests, get in return for eliminating certain patent protection in our country? In exchange for it, we got two more months to file a Japanese translation of a patent application than we had before.

This deal reflects an almost criminal naivete. To cover up this absurd acquiescence to the Japanese interests, we have seen underhanded tactics being used and misinformation being spread about Capitol Hill. Last August, Mr. Lehman claimed in testimony that there were 627 submarine patents issued 20 years after filing and he said these delays were caused by inventors who intentionally delay the issuance of their patent until the market has matured and their return on investment maximized. Well, we got a report from the Patent Office on those 627 patents. It said that fully 68 % of those patents were under secrecy orders and that was the reason they were delayed. That means the government had ordered that the technology in those patents should be kept secret for national security reasons. Of the remainder, some had been included erroneously, a large number had been delayed by Patent Office orders for divisionals, and so on. How many were really "submarine" patents? It is impossible to know, other than it could not be more than a mere handful.

Patent Commissioner Lehman has said that the average patent application takes 19 months to be processed. That statistic is misleading, at the least. First, it includes routine abandonments which may take only a few weeks. It also includes inconsequential and trivial patent applications, which never produce royalties. The figure does not include re filings, so it is not relevant to the issue of how long it takes from original filing to actual issuance, which is what we are concerned with today. Most importantly, breakthrough patents almost always take longer than the "average" to be processed, since they are always more novel and complex. Mr. Lehman has never, despite many opportunities, addressed any of these concerns, nor has he recanted his irresponsible statement of last August in which he stated that he knew of 627 "submarine" patents, 2/3 of which turned out, as I just noted, to be under secrecy orders from our government. To this day, the Patent Office hasn't given us the information we need, which is the time it takes for breakthrough patents to be processed from the time of the ancestor filing date. I've asked the General Accounting Office to go into the Patent Office and find out for us. They will find out the answers for us, since apparently Mr. Lehman cannot tell us.

This situation must be resolved and inventors' fights must be restored. I have authored legislation, H.R. 359, to restore the patent rights of the American people. Senate Majority Leader Dole has sponsored the same legislation in the Senate, S. 284, and I commend Bob Dole for his commitment to inventors. He has led the effort in the Senate and is doing a great job in shepherding the bill through a difficult process over there.

H.R. 359 and S. 284 are really quite simple. They establish a patent term of 20 years from filing or 17 years from grant, whichever is longer. That's exactly what the GATT implementing bill should have said. They also contain a clause which will cause the publication of a patent application if an inventor tries to delay the process after five years. Many people out in industry have real concerns about submarine patents and inventors who allegedly rip off corporations by playing the system and filing endless continuations in the Patent Office. So I have bent over backwards to help them out because I am concerned only about maintaining 17 years of protection for American patent applicants. I have stated time and time again in meetings with congressional leaders and industry representatives that I will put into my legislation anything that will solve the submarine patent problem, as long as we maintain 17 years worth of protection. I am still waiting for a compromise. Frankly, I have come to suspect that the submarine patent issue is being used as a cover by those who simply want a weaker patent system because they respect big-money multinational corporations more than they do the creative individual. Mr. Lehman typified the attitude when he was quoted in the New York Times saying that his opponents were nothing but a bunch of "weekend hobbyists." Last week, in testimony before a

subcommittee of the International Relations committee, he repeated that remark. No wonder he negotiated away American patent fights with such abandon.

Independent inventors are the creative engine of our economy. It is ironic and sad that IBM opposes a minimum guaranteed patent term, when their company is based on the work of independent inventor, Herman Hollerith, who invented the tabulating machine and started the company that eventually became IBM. It is appalling to see the large automobile manufacturers oppose H.R. 359, when independent inventors have contributed so much to their industry, such as Francis Davis' power steering invention and H.F. Hobbs' automatic transmission. Apparently, these companies would prefer not to have to pay to use the ideas of such brilliant minds.

H.R. 359 has 197 sponsors, including myself. It is supported by a broad coalition of groups. The National Venture Capital Association supports the bill, because a minimum guaranteed term will allow them to predict the value of a new invention. Universities support H.R. 359, because they are producing thousands of new, basic ideas which are creating whole new industries in this country. Small businesses support H.R. 359, because many of those companies are based on one or two successful patents. Without strong patent protection, they will be spending their money defending their rights in the patent office and the courts instead of developing their ideas in new products. Biotechnology companies also support a minimum guaranteed term. Most biotechnology patent applications take five to ten years to be processed. A 20-year-from-filing system will disproportionately harm their industry. AMGEN and the industry group BIOCOM are each submitting testimony to this hearing. I urge you to listen to what they have to say.

There is alternative legislation, H.R. 1733, the Patent Application Publication Act. That bill proposes to publish all patent applications 18 months after they've been filed. That's regardless of whether the patent has been issued and the technology protected. And it's whether or not the inventor has tried to delay the issuance of a patent. No matter what, every application would be published under H.R. 1733.

It should be obvious that this will lead to the stealing of American technology by foreign interests and large corporations here in the United States. Who would want us to let the world know all of our secrets of our technological creativity before the patents have been issued to protect them.?

Well, this was another Japanese demand that Bruce Lehman agreed to in order to fulfill his ideological commitment to harmonization between our countries. Under H.R. 1733, we're in effect going to hang a huge neon sign out in front of the Patent Office that says, "Come and steal our technology. Here is something of value; come and copy it." H.R. 1733 must be defeated. Its advocates fully realize the effect publication will have. The bill is officially called the Patent Publication Act of 1995, but in letters to Members of Congress, the other side uses innocuous terms to describe the bill, such as calling it Patent Term Extensions and sometimes not even mentioning publication at all. The bill's provisions for patent term extensions are unworkable and bureaucratic. Also, the bill relies on the idea that the Patent Office will take responsibility for any delays they cause and grant the appropriate extensions. Such an approach is simply naive. Both the 20-year-from-filing term and 18-month publication of patent applications diminish patent protections. Together, they eliminate an important competitive advantage America has enjoyed for over 200 years, the strongest patent system in the world. More than that these changes are a direct attack on property rights, intellectual property rights which should not be infringed. I wouldn't want the government to take away your land or your possessions. I also wouldn't want the government taking away your intellectual property.

We are entering a new technological age, and our government is destroying our greatest asset, the creative genius of our people. We are giving it away for some feather-headed notion that we are going to have global harmonization of patent rights and that is going to make us all love each other and we can operate in good will.

Imagine if we told the American people that we wanted to have harmonization of individual rights of our citizens to pray and speak as we please, and we had some featherbrained government official making a deal with Singapore giving those rights away. "By the way, the American people are just going to have to give up these rights. They are too individualistic. We need a new global concept of human rights to make sure wherever you go, people have the same human rights level. The American people would never stand for that. It is up to us to carry on the tradition of Jefferson and Franklin and the creative minds which gave us the Constitution and individual liberty and strong intellectual property rights. They talked about freedom. They talked about the dignity of the common man. They said that we would be a society so prosperous that even the common man could own the product of his labor, and could live in peace and harmony with his family. Tyranny would not reign in America because we believed in freedom and individual fights. Part of freedom and individual fights is the fight of people to control their own creations. It is a precious fight and as important to our society as any of the other fights we have enjoyed for so long.

Now we have an unelected official, Patent Commissioner Bruce Lehman, making deals with the Japanese which will diminish the fights of the American people. We are supposed to accept his fair accompli. I know, that with your help

and faithfulness, this tragedy will not stand. Thank you for allowing me to testify before this distinguished subcommittee. Talking Points About The H.R. 359/S.284 Patent Term Restoration

Substance of the bill: Combine the patent term in the GATT implementing legislation and that of the previous U.S. law so American patent holders have a term of at least 17 years from when patent is granted.

- Companion Senate bill S-284 introduced by Robert Dole (R-KS).

The new law that went into effect on 6/8/95 effectively shortened the patent term.

- H.R. 359 is in compliance with the GATT treaty.

The Administration via Mickey Kantor in a letter to Senator Dole has pledged not to oppose this bill. The White House Conference on Small Business endorsed the concept contained in H.R. 359.

As of 8/2/95, this bill has 189 cosponsors, including large numbers of both Democrats and Republicans.

Endorsed by: AUTM; COGR (universities); NVCA (venture capital firms); NSBU (small business); Business and Industrial Council; inventor groups from Texas, Ohio, Tennessee, Kansas, Oklahoma; pharmaceutical and biotech companies; Monsanto. Certain patent protection is crucial to business startups, R & D investment, and future economic growth.

Bill includes publication provision for abusive submarine patents. Rohrabacher is open to additional anti-submarine provisions.

Background:

1. The GATT treaty requires each country to adopt a minimum patent term of 20 years. Therefore, member countries can adopt a longer than 20 year term.
2. Previous U.S. law had a patent term of 17 years from when the patent is granted.
3. The GATT implementing legislation adopted by Congress last year called for a patent term of 20 years from filing of a patent application.
4. Because of filing delays, a patent can take several years after filing to be issued, and therefore, result in a drastically reduced term. For example, if patent application takes 7 years to issue, under the new law, the inventor would only get a 13 year term. Under the old law he/she would have had a 17 year term. Thus, the new law has reduced the patent term by 4 years, and thereby reduced its economic value.
5. On January 16, Mike Kirk of the U.S. Patent Office, said that the GATT provision could substantially shorten patent terms.

H.R. 359/S. 284 Supporters

AUTM (Association of University Technology Managers), Norwalk, CT. COGR (Council on Government Relations) - an organization of research universities, Washington, DC. National Association for the Self-Employed (NASE), Washington, DC. National Small Business United (NSBU), Washington, DC. National Venture Capital Association (NVCA), Washington, DC. United States Business and Industry Council (USBIC), Washington, DC. Valve Manufacturers Association of America, Washington, DC. Mr. Don Banner, Former Commissioner of Patents and Trademarks. Fonar Corporation, Melville, NY. Smith Kline Beecham, King of Prussia, PA. Sterling Winthrop Inc., Washington, DC. Molecular Biosystems, Inc., San Diego, CA. Aregen, Thousand Oaks, CA. Allergan, Newport Beach, CA. Kansas Association of Inventors, Great Bend, KS. Oklahoma Inventors Congress, Tulsa, OK. Tennessee Inventors Association, Oak Ridge, TN. National Congress of Inventor Organizations, Logan, UT. Nevada Inventors Association, Reno, NV. Amarillo Inventors Association, Amarillo, TX. Houston Inventors Association, Houston, TX. Utah Biomedical Industry Council, Logan, UT. Capital Inventors Association, Arlington, VA. Small Entity Patent Owners Association (SEPO), Pleasant Hill, CA. Inventors Voice, Los Angeles, CA. United Inventors of America. Ohio State Bar Association. Columbus Intellectual Property Law Association, Columbus, OH. University of Utah, Salt Lake City, UT. University of Tennessee, Knoxville, TN.

Guzik Technical Enterprises, San Jose, CA. DC Power Tools, Austin, TX. Anatomic Research, Inc. Arlington, VA. Elitech Innovations, Inc. Bremerton, WA. Future Technologies Today, Ogden, UT. Simco, Weston, CT. Riley and Associates, Grand Blanc, MI. Midwest Marin Contractor, Mt. Prospect, IL. Salzer Technology Enterprises, Inc. Santa Monica, CA. Tuttle International Marketing, Orlando, FL. Charter Oak Classics, Inc., Tualatin, OR. Phillippi-Hagenbuch, Inc., Peoria, IL. Surgitrac Corporation, Atlanta, GA. Durabla Pump Components, Inc., Odessa, TX, and Lionville, PA. MicroLogic, Inc., Waltham, MA. R & D Technology, San Diego, CA. Norian Corporation, Cupertino, CA. Center for Innovation and Business Development, Grand Forks, ND. Power Ideas Corporation, Mountain View, CA. Guzik Technical Enterprises, San Jose, CA. Edison Inventors Association, Inc., Fort Myers, FL. Chamber of Commerce, Chester County, PA. Docie Marketing, Athens, OH. Alliance for American Innovation, Washington, DC. Intellectual Property Creators, Los Altos, CA. Alexander C. Johnson, Jr., law firm of Marger Johnson McCollom, and Stolowitz, Portland, OR. Barnes, Crosby, and Fitzgerald, law firm, Irvine, CA. Roger Coe, Attorney, Elkhart, IN. Peter Theis, Attorney, McHenry, IL. Todd Hardy, Attorney, Arlington, VA. ALPHA Software Patentholders, Los Altos, CA. Houston Chronicle Biogen, Cambridge, MA. Providence Journal-Bulletin. American Chemical Society. Small Business

Legislative Council (with 93 affiliated organizations). Boston College. Boston University. Brandeis University. Brigham & Womens Hospital. Creative Biomolecules. Harvard University. Massachusetts General Hospital. Massachusetts Institute of Technology. New England Deaconess Hospital. New England Medical Center. Woods Hole Oceanographic Institute.

Noteworthy Inventors who support H.R. 359/S. 284.

Raymond Damadian, M.D., inventor of the MRI. Dr. Robert Rines, inventor of high resolution radar and internal organ imaging. George Margolin, inventor of microfiche readers, folding pocket calculators. Paul Wolstenholme, inventor of self erecting grain storage system.

BREAKTHROUGH PATENTS WHICH ISSUED MORE THAN THREE YEARS AFTER FILING

1. Crystalline Polypropylene 27 years to issuance NO protection under 20-year-from-filing system Phillips Petroleum made \$300 million on patent m LASER 20 years to issuance NO protection under 20-year-from-filing system Endless prior art disputes from earlier "maser"

3. Microprocessor 17 years to issuance 3 years of protection under 20-year-from-filing
Received almost no protection in Japan

LANGUAGE: ENGLISH

LOAD-DATE: November 4, 1995

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OF THE HOUSE JUDICIARY COMMITTEE

SUBJECT: PATENT PROTECTION LEGISLATION

CHAIR BY: REPRESENTATIVE CARLOS MOORHEAD (R-CALIFORNIA)

WITNESSES:

REPRESENTATIVE DANA ROHRBACHER (R-CALIFORNIA)

JAMES FERGASON, PRESIDENT, OPTICAL SHIELDS

MARK LEMLEY, PROFESSOR, UNIVERSITY OF TEXAS LAW SCHOOL

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RAYMOND DAMADIAN, INVENTOR

JAMES CHANDLER, PRESIDENT, NATIONAL INTELLECTUAL PROPERTY LAW
INSTITUTE

ROBERT RINES, FRANKLIN PIERCE LAW CENTER

DIANE GARDENER, MOLECULAR BIOSYSTEMS, INC.

BODY:

REP. MOORHEAD: The subcommittee on courts and intellectual property will come to order. This morning we meet to take testimony on two bills pending before the subcommittee: HR359 and HR1733. We have the receipt of a number of requests of statements and letters made a part of today's hearing record.

I have unanimously accepted the following statements be made part of the record: it's a part of HR 1733; a list of 60 U.S. companies and 14 national trade associations. In addition, we have the business and software (inaudible), the

Pharmaceutical Research and Manufacturers' Association, the Generic Pharmaceutical Industry Association, Intellectual Property Owners, Chemical Manufacturers' Association, Genitec/Biotec Technology Company, a statement of the Biotec Organization representing 500 Vedic companies, departing the 20 year term of the recommended amendment, HR1733, concerning delays caused by the PTO, letters signed by five of the last six former commissioners, the PTO in support of HR359, we have a letter from Congressman Baker requesting a letter from Mr. Fishman be part of the record, a statement from the American Counsel of Education, a letter from Mr. Chris Wells representing the Oklahoma Inventors' Congress, a letter from Mr. Lawyer a patent attorney, a statement from Ronald Riley, Alliance from American Innovations. Without objection, so ordered.

This morning we continue hearings on important legislation. I would like to take a few minutes to provide some background on why I believe HR1733 is important.

After World War II and during the Cold War, the United States used trade policy as part of a strategy to help rebuild the economies of Europe and Japan and to resist communist (inaudible) inflation.

We led the world in global efforts to dismantle the trade barriers and create institutions that would foster global growth. But now we're no longer the sole economic power in the world. We are the world's largest economy, and world's largest trading nation. Our economy, which represented 40 percent of the world's output following World War II, now represents 20 percent.

Europe and Japan rebuilt, became tough competitors. The newly industrialized nations became increasingly protective, winning a share of the U.S. market many times without losing their equality. Although we welcome the product services and investment of other nations in the United States, now we must insist that the markets of our trading partners be opened for product services and investments for the United States.

We will no longer tolerate free riders of the global trading system. We insist upon reciprocity in our trade agreements. This is a critical change in the way view both trade policy and foreign policy. The road to prosperity is not always smooth. Sometimes our trading partners will have economic problems. We must remember that the success of economy is inexplicably linked to the economies of other nations.

Some would have us follow the ostrich approach; if we just stick our heads in the sand, the problems of other nations will simply go away. But history has shown that cutting ourselves off from the world is a sure formula towards the less successful and prosperous country.

Intellectual property protection has set a significant feature of our trade policy. Negotiating strong intellectual property agreements and enforcing them has taken on new urgency because of the increased importance of our intellectual property industries to our national competitiveness.

Our copyright lease industries are growing at twice the annual rate of our economy, and employing new workers at almost four times the annual rate of the economy as a whole. Last February, I participated in a press conference in which a report entitled "the copyright industries the U.S. economy from 1973 to 1993" was released.

This report, which contains impressive figures, was prepared for the International Intellectual Property Alliance by Economists, Inc. Let us take a moment to highlight some of these figures because I think they're indicative of just how important the intellectual property industries are today's economy and to America's economic future.

In 1993, the copyright industries account for 3.7 percent of the United States' gross domestic products. This mean 238.6 billion dollars. Between 1977 and 1993, employment in the U.S. copyright industries more than doubled to 3 million workers, which is 2.5 percent of the total U.S. work force.

Between 1988 an 1993, the U.S. copyright industry grew almost four times the annual rate of the whole economy; 2.6 percent versus .7 percent. The copyright industries contribute more to the U.S. economy and employ more workers than any single manufacturing sector, including aircraft, primary metals, textiles, apparel or chemical.

In 1993, the U.S. copyright industries achieved estimated foreign sales of 45.8 billion dollars. After automobile and parts, the copyright industry is the second largest industry in export.

A global economy offers tremendous opportunities for American workers. Over 11 million workers in the United States owe their jobs to export. These jobs pay higher wages on the average than the jobs not related to trade.

Every billion dollars of exports support 17,000 jobs. Clearly expanding trade is critical to our efforts to create good, high wage jobs. The global economy will not disappear. We cannot turn our backs on the clock. Even if we could, we must face the fact that the United States has a mature economy, and we have only 4 percent of the world's population.

Future opportunities for growth in the United States will depend in part on providing goods and services to the other 96 percent. Given this fact, opening markets, expanding trade and enforcing our trade agreements are important to fostering growth in the United States.

What this hearing is about this morning is whether we go forward and strengthen our inventors and our industry to compete in global economy, or do we roll back the gains that we have already made.

I'd like to spend the next few minutes talking about HR1733 and the newly created 20 year patent term. The old law was that your patent lasted 17 years to the date of issue. The new law as of June 8, 1995 is that the patent will last 20 years from the date that you filed with the Patent and Trademark Office. That commitment was made in substance (inaudible) agreement, as well as in the 1994 bilateral executive agreements with Japan.

The twenty year term invented agreed upon point and gap for at least the four or five years, through republican and democratic administrations alike. This is common knowledge. The idea of the 20 year term is not new. The 20 year proposal almost identical to the present law was recommended for the U.S. by President Lyndon Johnson's commission on the patent system in 1966.

And Secretary of Commerce Mossbacher commission on patent law reform in 1992. I did not vote in favor of GAT implementing legislation for a number of reasons, none of which concerns the intellectual property provisions of GAT. To the contrary, I do know that the copyright and patent provisions of GAT are good for the United States and supported by every major national copyright, patent and bar association that takes an interest in patent and copyright law. The overall pendency, from filing to the issuance of a -- or abandonment for patent application decreased from 19 1/2 months in fiscal year 1993 to 19 months in 1994. For computers, pendency was reduced from 28.5 months in 1993 to 26.5 months in 1994. In the of vinyl technology, pendency was reduced from 22 months to 20.8 months. GAT will add an additional 36 months to cover this examination period.

In January of August 1994, the Japanese agreed to make substitutive changes in their law to benefit the United States (inaudible) in exchange for the patent and trademark office recommending the 20 year term for filling an 18 month publication. The change the U.S. wanted to make anyway.

The features in the Japanese patent system that create problems to the United States businesses, according to the general accounting office study released in July 1993, are 1) they do not permit filing applications in the English language. As of this past July it is now possible for U.S. applicants to file patents in English. 2) the time it takes to obtain a patent is much too long; five to seven years. As of January 1, 1996, if we keep our part of the agreement, examinations will conclude in 36 months. 3) the permit competitors -- they permit competitors to oppose the issuance of a patent before the patent is issued. This practice will abolish next year if we keep our side of the agreement.

They permit competitors whom develop minor improvements to obtain compulsory licenses for basic technologies developed by the U.S. businesses. This practice will be limited.

These are the Japanese practices they have agreed to change in exchange for the 18 month publication and the examination. To further protect patent applicants, the present law would extend the 20 year term for the patent for up to five additional years to compensate when an applicant is involved in a proceeding to determine who was the first to invent or an appeal of an examiner's decision in a court proceeding.

This protection will further insure that the patent will not suffer any loss of terms. In addition to these protections, present law adds an additional year for what is called provisional patent application. This adds an additional year in which the applicant can develop claims and potentially seek investment for development of new invention.

During this provisional year, the inventor retains his rights to an early filing date as the 20 year term doesn't start to run until the non-provisional application is filed. Which amounts to 21 years of affected patent terms.

Our old term of 17 years (inaudible) from the patent ground was being abused by a few inventors and interfering with the patent's system objective of stimulating progress and technology. I find success of continuing applications on the same inventions the original applications remain submerged in the Patent and Trademark Office in secrecy year after year.

Its legal abuse -- its legal means of intentional delay perpetrated by the inventor until the company has grown up around an existing company, begins using the inventor's original idea. Once the patent is granted, sometimes as much as 20 to 30 years after filing, the inventor can demand significant licensing fees for continued use of the now patented process. This usually comes as a brutal surprise to the companies that manufacturer in the U.S., both foreign and domestic. All foreign countries have the safeguard of measuring the term from filing date. The significance of these submarine patent lies not in the number of such cases but in the destructive effects caused by such cases.

The U.S. patent system is designed to cause inventors to disclose inventions to, as the U.S. Constitution says, to promote science and the useful art. In return, patents provide inventors with 20 years of monopoly.

Submarine patent abusers do not disclose anything, just the opposite, they deliberately keep their inventions secret. Then after decades of delay they cause the patents to issue so that they can collect royalties from existing businesses. These submarine patent are intended to be a weapon against legitimate business.

In June of this year, Pat Schroeder and I introduced a bill Hr1733 that would further insure a 17 year minimum for any issued patent that was delayed through no fault of the patent applicant. First the bill would bring the U.S. in line with the rest of the world by requiring that all patent applications be published in 18 months.

Why have publication in 18 months? First, it will place our domestic inventors on an equal footing with inventors in foreign countries; all of whom have access to published patent application technology in their own language 18 months after filing.

Remember over 45 percent of all applications filed with the PTO are from foreign applicants, who file their own key note in their own country and whose application is made public in 18 months. Of the remaining 55 percent, over half are also filed in foreign countries. Therefore, between 70 and 80 percent of all patents filed with the PTO is already made public.

Of course, all patents issued in the U.S. are made public upon issuance. The average U.S. patent takes about 19 months until issuance.

Second, 18 month publication will make it more difficult to manipulate the system by use of the submarine patent. HR1733 takes an additional step to protect those who may want their application published and upon request of the applicant publication will not take place until three months after notification by the PTO that the application is denied, giving the applicants time to list all his application and use the trade secret route.

In addition, what if your patent application is published and your patent doesn't issue until 12 months later? HR1733 has what is called a provisional rights section that allows the patent applicant once his patent issues to issue a reasonable royalty -- to sue for a reasonable royalty anyone who may have used this patent after it was published.

This is a right the patent applicants do not have today. For example, we have all seen that notice patent pending. What does that mean? In the practical matter, a notice of patent pending may scare off some competitors. If someone uses your patent before it is issued you have no rights to a reasonable royalty for that use.

However, under HR1733's provisional rights provision and in conjunction with the 20 year patent, patent users are assured of at least 18 1/2 years of patent protection regardless of patent pendency.

If a provisional patent application is filed, or if a publication is requested earlier than 18 months, the original patentee could obtain up to 19 1/2 years or more of patent right.

When Mrs. Schroeder and I introduced HR1733 we added a provision which would take care of criticism of the new term without neglecting what we gained from the 20 year term. What we added is a fourth contingency to the present law that would permit the Commissioner of Patents to extend the patent terms for any time lost as a result of a delay caused by the patent office. If the government delays, the government pays.

Term extension under this section of the bill is punitive and up to ten years can be restored to a patent. With HR1733 every possible avenue of delay of a patent has been covered. The U.S. system dates from the earliest days of the republic, and the current law is basically that adopted in 1837. Some changes in our patent system have been necessary to comport with the 1990 -- 21st century.

The changes proposed by HR1733 reflect a well-reasoned, informed approach to modernizing U.S. patent law. I believe our hearings this morning will support that conclusion, and I'll recognize our ranking member, John Conyers.

REP. CONYERS: Thank you, Mr. Chairman. I have a copy of your statement so I want you to know that I support what you said in it. I came here, first, to explain that our colleague, Pat Schroeder, is unable to be here because of a partial birth/abortion ban bill on the floor at this moment. And I know have to add that I will soon not have to be here -- I will not be able to be here because there is a fair chance of defeating the rule on that.

I wanted -- and everyone of course knows, as you've mentioned, Mr. Chairman, that Ms. Schroeder is supporting you in your proposal HR1733.

I ask unanimous consent that my statement be entered into the record, and because Mr. Rohrabacher has been waiting for these several minutes and we've got one of the longest witnesses list that I've seen at a subcommittee this year, I'll yield back the balance of my time. REP. MOORHEAD: Are there other opening statements? If not, our first witness this morning is our colleague from California's 45th District. He testified in August in 1994 before the subcommittee of two bills, Senate bill 2368, which contains actually the same language of the 20 year -- the three month term and was later adopted in GAT pending legislation. On behalf of the subcommittee, I want to welcome our colleague; look forward to his testimony.

REP. ROHRABACHER: Thank you very much, Mr. Moorhead, Mr. Chairman, Mr. Vice-Chairman -- Mr. Conyers I should say, and all of the other members of the distinguished committee.

Last year with the GATT implementation legislation was passed it established an uncertain patent term of 20 years from filing. The word uncertain patent term is very significant. I was upset because the GATT agreement did not require us to abandoned America's guaranteed patent term, which for 134 years was set at a minimum of 17 years from grant. So we went from a certain and a guaranteed patent term to an uncertain and unguaranteed patent term. Thus, by misusing GATT's fast track process a change of vital importance to our nation was enacted into law without so much as an up or down vote on the issue. This less than democratic tactic has given us a patent law which reduces the rights certain of every individual American and in the long run threaten our nation's competitiveness and prosperity.

The United States has always had the strongest patent system in the world, and is now the world's leading producer of innovative, breakthrough technology and ideas. That didn't just happen; that happened because we were -- all of these years had a certain type of guaranteed patent protection, and that's why we've had, and have today, a 20 billion dollar balance of payments surplus in royalties and license fees.

In the past, innovators were confident that they would have 17 years of patent protection no matter how long it took the patent office to issue the document. Venture capitalists were confident too. That was 17 years of guaranteed ownership of new technology they could recoup their investment.

That led to an avalanche of accomplishment by independent inventors. I have a chart here which indicates some of the most important inventions of this century have been invented by independent inventors, whether we're talking about the zipper which is not important but perhaps things like power steering or air conditioning. Even the ball point pen; and even when we're talking about health care issues, magnetic resonance imaging, titanium, penicillin, the vacuum tube, insulin, and the list goes on and on were invented by independent -- the jet engine, FM radio, etc., etc., etc.

These are important inventions that have given us a dramatic edge in the international competition that we're talking about in this global market place, they were invented by independent inventors because they knew they had a guaranteed property right to 17 years of protection.

These ideas have established whole new industries in this country. Currently the revolution in bio-technology is dependent on patent protection, yet, of course, we know that others would like to steal the product of America's investment into bio-technology, especially foreign interests.

No amount of government subsidy will be able to make up in the loss in venture capital that will result in the compromising of patent certainty and patent protection in the United States. Big domestic and foreign corporations obviously who are users of technology, rather than creators, they believe that the patent system -- and they've wanted to weaken the patent system for a number of years and you can see why. You can see why automobile manufacturers in the United States, or even in Japan, may not want an innovative patent term when it was innovators, independent innovators, who came up with innovations like power steering and automatic transmission.

Obviously these very powerful interests, foreign and domestic, would rather just use these ideas without paying royalties. The issue at hand is eliminating the 17 years of guaranteed patent protection and replacing it with 20 years of so-called protection that depends on patent office bureaucrats and the ineffectiveness of outside interference in the process.

And I might say with the (inaudible) formula that we're being asked to accept, the people who will have the most leverage in the patent system in the future will be those people who can hire the best lawyers and pay the most money to affect legal decisions.

We have -- the issue at hand, as I say, is whether we're going to eliminate the guaranteed patent protection or replace it with 20 years of uncertain patent protection.

And we have another chart here that shows that -- how this would have impacted if this law had been in place. Three of the most important inventions, which is crystallin polypropylene, which is basically something that we see every day in stores throughout the world in the use of bottling; it took 27 years to issue that patent.

Under the system that we have just replaced, the one that we have just created with no up or down vote by Congress, the protection would have been no protection for Phillips Petroleum, which put a lot of money into investing in R&D to come up with this product. And they made 300 million dollars on this patent under the system before we changed it.

The laser took 20 years to issue. It would have had no protection under the current system that we've just put in place. And by the way, both of these had 17 years of protection under the old system.

Then, of course, the microprocessor which took 17 years to issue, and it had three years of protection -- would have to have three years of protection under the current system, it had, of course, 17 years under the old system. Thank you very much.

Of course when you decrease the number of years of protection that means overseas interests don't have to pay royalties during that time period. Remember that. Now even worse, there's a push, and this a disagreement -- an obvious disagreement -- but I think it is a lethal disagreement, there is a push that all patent applications need to be published 18 months after filing, which is the essence of HR1733.

Whether or not, the most important element of this is that these applications are going to be filed whether or not the patent has been issued and the ideas are protected. That's the basis of 1733; the patent application publication act. Even though many of the bills co-sponsors seem to be unaware that the central purpose of the bill is publicizing patents before they are protected.

HR1733 publishing, any type of patent application before it receives patent protection, would be a heinous crime against America. Anything which published the details of an invention before the issuance of a patent is an open invitation for every unscrupulous company in the world, foreign and domestic, to steal our technology.

Publications will be open to the possibility of outside -- it will open up the possibility of outside interferences in our own patent process. Meaning it will take even longer for patents to be issued and that will mean even more of the inventors time will be taken away. That's been the experience in other countries, and now some misguided people want to bring that system to the United States.

We've heard about submarine patents. The opponents of my bill, HR359, have based many of their arguments on this submarine patent issue, which is based on villainizing -- basically villainizing -- inventors. They claim that inventors are deliberately delaying the process, and that's the most important problem facing the patent system today.

Well, let me add that most of the inventors I know, and if you talk to inventors that you know, you will find that they have struggled desperately to have their patent issued as soon as possible so that they can start getting some of those royalties and getting some payment back for their work.

They have struggled diligently to do this, and they are in no way trying to delay their patents. That's the vast majority of all inventors because they're not rich guys. They're usually people who need that royalty money coming in and they realize with the speed of change in our society, if they don't get that patent issued, they will be left behind because something new will be invented that will take its place.

Such submarine patents may be a problem, but not nearly as calamitous as has been claimed. Bruce Layman testified, the head of our patent office, testified in August 1994 that he knew of only 627 submarine patents. As we've heard today, even if it's a small number, it's a problem.

Well my office found out from his office, and we've been making this request repeatedly, we just found out that fully 2/3 of the 627 so-called submarine patents were under government-imposed secrecy orders, which was no fault at all of the applicant.

The submarine patents are a problem, and let me admit that in many cases -- there are many cases of submarine patents where people are manipulating the system, and it is a problem. But I have repeatedly, repeatedly said I would be glad to accept into my legislation, which keeps the guaranteed patent term, anything that we can do to prevent those submarine patents.

In fact, there's been no attempt from what I can see to try to reform the patent office to get at the submarine patent issue. Instead it's being used basically as a cover to eliminate the guaranteed patent term.

Well we don't need to punish every American inventor to diminish -- and diminish the property rights of every American to solve the submarine patent issue.

HR1733 basically is like a character in "A Man for All Seasons," the play about Sir Thomas Moore. In order to get at the devil lurking in the woods, this character was willing to burn down the entire forest. We don't need to destroy our venerable patent system based on a guaranteed patent term just to deal with the submarine patent problem.

I urge the committee to restore the rights of American inventors by passing HR359, and not to make every U.S. inventor vulnerable by passing legislation that requires the publication of all of his or her ideas after 18 months of application whether or not that patent has been issued.

There are many other issues that we could get into, what I will do because I know there are other witnesses here to testify, but there are many people who can talk about -- and will testify -- that the 19 month average pendency that we've heard about is not, does not hold up under scrutiny. And that the Japan -- the deal we made with Japan, the two unelected officials made with each other -- in the Japanese officials and American officials -- was a major, a major catastrophe, and it was what we would call a "sweetheart deal" made between two people and the interests of the United States was left out.

And with that, Mr. Chairman, I would open up to questions and submit the rest of my statement for the record.

REP. MOORHEAD: Thank you. Professor Mark Linley, of the University of Texas School of Law, who will be testifying this morning did a study to evaluate the likely effects of the new 20 year patent term on U.S. patent holders. That's the only study that I know of that's been made concerning the comparison of the new system. To that end, he collected and analyzed data from over 2,000 recently issued patents.

From 197 litigious patents his study determined that overall patent users will benefit from the new 20 year term. On an average patent users can expect to gain around one year of additional term depending upon the assumptions made.

The study indicates that submarine are a small, but not insignificant, percentage of the total patents issued, and that submarine patents suffered the brunt of the burden of the proposed new law.

This study was published last June. Have you have a chance to review the study, and if so what is your --

REP. ROHRBACHER: No, I haven't, Mr. Chairman. Could you tell me who paid for the study?

REP. MOORHEAD: The study was, came out just this last year. REP. ROHRBACHER: But, who was the -- what was the interest group that paid for --

REP. MOORHEAD: Professor Mark Linley.

REP. ROHRBACHER: But who paid -- perhaps when he comes up. Maybe it was done independently. Was there anybody who paid -- did anyone pay for the study?

MR. LEMLEY: No one paid for the study.

REP. ROHRABACHER: It was totally independent?

MR. LEMLEY: It was totally independent. The University of Texas pays my salary but --

REP. ROHRABACHER: All right. Well I will accept that, Mr. Chairman, but I do know that there are some very powerful interest groups that --

REP. MOORHEAD: Oh, come on, don't --

REP. ROHRABACHER: No, I'm not screwing with you. The bottom line is he said no one paid for his study, but you know and I know that we have been in hearing after hearing where there are individual professors that have done studies for special interests and I was trying to determine whether or not that was the case; this was not the case here. If the professor found that the average patent will gain one year, Mr. Chairman, that -- all I have to say is that the average patent makes absolutely -- is totally irrelevant to the decision as to whether or not we will eliminate a guaranteed patent term for all American patents.

The average patent could be the stripe on the bottom on a toothpaste tube. What matters is the breakthrough technologies in which I have just shown you, the three major breakthrough technologies, that we have just shown you the chart on, would have received -- would have lost all of their patent protection.

These major patents take a longer time to get through the process, and they would lose handily, and there will be witnesses that will testify to that on our panel, who I'm afraid in terms of their people have just as good as credentials as our professor.

REP. MOORHEAD: I have a question that you might be interested in. You've criticized the provisions of HR1733 that would restore time lost of the patent office as not workable. What if the patent office published a list of deadlines,

where its response is the applicant's action, and then compensate the applicant any time it takes in excess of the deadline; an absolute guarantee. REP. ROHRABACHER: Okay. I have been open to discussing different -- in fact, I have pleading with different people in the industry -- and everybody knows that around town -- every time I give a speech on this I say let's come up with a compromise and try to find a way in which that 17 years of patent protection is absolutely guaranteed.

REP. MOORHEAD: But you didn't answer my question.

REP. ROHRABACHER: Right. I'll be open to talk about it, sure. But my main goal, my main goal is to make sure that those 17 years of patent protection are not taken away. Unfortunately, when you set up a complicated formula rather than by changing the system where it was a very simple, it was understandable, and enforceable 17 years, when you change that to a system that basically we're trying to organize a very complicated process that will result in 17 years in protection, the people who have most of the money for lawyers, the people who have money to influence the system basically have the edge. The poor independent inventor who is operating on his own is left out in the cold because he can't hire the legal representation needed to get through the system and that's the difference.

Although I'm open to any compromise that will guarantee 17 years.

REP. MOORHEAD: The Gentleman from California, Mr. Berman.

REP. BERMAN: The charts that you showed -- yeah, there it is -- is an interesting one, and I would be interested in hearing from the opponents of your proposal their response to those assertions.

REP. ROHRABACHER: These are just three examples. There are so many examples --

REP. BERMAN: I understand.

REP. ROHRABACHER: -- where people have invented things, where it's taken them -- where they've struggled to get through the system, and it's taken them eight to ten years.

REP. BERMAN: Let me ask you a couple of things. First of all, I'm -- I've only been on this subcommittee for about ten of the last twelve years so I don't know much about patents. I've managed to not specialize in that area, Mr. Boucher, Mr. Moorhead know a lot more. Tell me a few things here. When you file your application for a patent, can you start getting royalties for the use of your product?

REP. ROHRABACHER: It is an uncertain; that is uncertain.

REP. BERMAN: It's certain whether you are allowed to or not.

REP. ROHRABACHER: It may be possible, but most people will not respect patent pending -- most people will not invest in a technology, or respect a situation, until that patent has been issued because they realize that there are all kinds of people challenging; there may be another invention that the patent office has to -- it's a very uncertain situation.

REP. BERMAN: But to the extent --

REP. ROHRABACHER: I believe it is possible.

REP. BERMAN: It is possible, yes. And that would provide, I understand there are many complicating factors in all of this, let me ask you one other question. When a patent is issued, does it relate -- let's say, a patent is filed, another patent is filed by someone else on a similar kind of thing a year later, the patent issues on the first application, does that -- to

the extent that the second one is found to essentially duplicate the first -- does that wipe out the second patent? In other words, if you're first in time in filing your application, does that --

REP. ROHRABACHER: It depends on who invented it first. I mean, we've got.

REP. BERMAN: It depends on who invented it first, not on who filed it first?

REP. ROHRABACHER: My, my -- by the way my bill goes to none of these issues.

REP. BERMAN: No. No. I'm trying to understand, you've talked and it's true what concerned me this GATT effort, this implementation legislation which you're trying to change, rewards not the best inventors but the people who can gimmick this system the best. Get their patents issued relatively early because by going from a guaranteed term to a period of time after the application is filed, are the ones that can get that issuance earlier will get a greater period of exclusivity of return.

REP. ROHRABACHER: Well, I'm just saying that the system by taking it from a time certain of 17 years and making it the 20 years of uncertain time, and making the clock start ticking is what you've done is you've complicated the process so much that for people who lack the means to have legal representation, you basically put them at the mercy of number one, an ineffective bureaucracy, and number two, -- if the bureaucracy is ineffective.

And number two, outside interests that may want to manipulate the system. Especially if you have an 18 month publication which permits outside interests to know exactly what you're up to and then they can plot a strategy of interferences, which is common place in Japan.

What we've done is basically by making this change, we have conformed our process to that in Japan. Now there is a reason why in Japan they don't come up with new innovations because people are beaten down by the system there. And their system is designed in a way that permits that.

REP. BERMAN: Let me ask my question.

REP. ROHRABACHER: Yeah. Sure.

REP. BERMAN: I'm trying to understand if there's -- you're spinning out tales of un-torrid influences and agendas that are anti-American in a certain sense because their not allowing the protection of invention, and of American technology and all of that. I'm trying to understand is there some economic motivation why people would want to play around with when their patent was issued so that they can increase the time in which they have the exclusive rights for compensation, keep prices higher, keep consumer's from getting -- more people getting the access more quickly; I'm just wondering is there a countervailing argument here.

REP. ROHRABACHER: Yes, there is. And it's the submarine patent argument, which I believe that there is an honest disagreement between myself and the Chairman on the relative importance of that as compared to the loss of rights that will take place by changing the fundamentals of our patent system.

There is a profit motive today, or at least under the old system, to basically try and string out your patent thing if you believe that your innovation and your new technology will be so in use after 10 years, or 15 years, that that 17 year period would be more profitable to have your patent in effect. And that is what the submarine patent is all about. That is true in some cases. I'm certainly willing to work with anybody in this body to try, and I have pleaded with the industry, to say let's come up with a compromise. We can reform the patent process; we can reform the way the system works in the patent office to prevent people from doing that.

But to take away the patent certainty, what we've done is open up a whole new can of worms that basically what we'll see -- what I would -- billions of dollars worth of royalties that should be staying here in American pockets, will instead, or are going to American pockets from Japanese and foreign bank accounts, that will no longer be the case because there term will be shrunk.

It will take an extra five or ten years to get through the process.

REP. BERMAN: My time has expired. Let me just finish with a rhetorical observation in my response, although I would like to hear critics of your bill address the issue of those kinds of inventions. I'm just wondering the extent to which one interpretation of what I see up there is that the laser, the microprocessor, some other things, because there was no particular necessarily motivation under the old law were kept out of the hands of American industry and American people because they could -- 27 years to issuance, 20 years to issuance, 17 years to issuance, how much quicker might we have had the laser or the microprocessor had this post-gas system been in place rather than --

REP. ROHRABACHER: I understand. I think that's a very good question and I will say this that we have a rapidly changing scene in the field of technology. And before I knew people who were struggling to get their patents issued as soon as possible, even when the rate of technological change was much slower than it is today, today when we have a rate of technological change that is so rapid many of the problems of the submarine patents of the past no longer apply because inventors are deathly afraid that if they delay the issuance of their patent at all, they will be left behind totally. In fact, who cares if their patent is 17 years if something comes up five years from now that is more effective. So they want to get that patent issued right away.

REP. BERMAN: I know we're running out of time and got all these witnesses.

REP. MOORHEAD: Thank you. The Gentleman from North Carolina, Mr. Coble.

REP. COBLE: Thank you, Mr. Chairman. Dana good to have you with us. This matter has generated a lot of interest on this hill and I guess around the country. Let me go back with you a ways. On June the 13th of this year on the House floor, it was either the one minute or special order, you said that the 20 year term was "snuck into the implementation legislation, even though it was not required by GATT treaty."

REP. ROHRABACHER: That's correct.

REP. COBLE: Now there are two parts to this statement. Let me dig into this. First, the matter about it being snuck into -- snuck into the implementation legislation. The 20 year term, as you probably know, was an issue being discussed in the GATT negotiations as far back, I think, as 1988.

REP. ROHRABACHER: That's not correct.

REP. COBLE: But I think that is correct. Let me finish, then I'll be glad to hear from you. I'm confident that is correct. We can disagree or agree about that subsequently. It seems to me that it was neither controversial nor new.

Now you testified, Dana, at a joint hearing of the Senate -- Mr. Chairman, I think in this very room, I'm not sure about that -- but in any event before this subcommittee on August the 12th, 1994 on the language contained in S2368, which was the language that was subsequently adopted three months later by the House on November 29th with a vote of 288 to 146; almost a 2/3 majority. And it passed the Senate with a vote of 76 to 24 on December 1, 1994.

Now on that very day that I mentioned previously, June 13, 1995, you went on to say that you were, "denied the right to even see the language until shortly before November 29, 1994." Now, Dana, did you not in fact testify on that language three months earlier.

REP. ROHRABACHER: That's correct.

REP. COBLE: So you were not --

REP. ROHRABACHER: That does not mean that that was going to be included in the bill. We were making requests of the administration as to whether or not this would be included in the bill we were refused to see, my office was refused our request to see a copy of what this implementing legislation was going to be like. This could -- or would not have been in this bill, this was a decision made at the last minute whether or not this would be in the bill. In fact, the President went so far as to cut a deal with Senator Dole saying well, we'll leave it in the bill but if Congress acts on it, we will agree we won't oppose what Congress goes -- this could have been taken out of the bill at any moment. We were not informed by it.

REP. COBLE: Well, just leave it alone, Dana.

REP. ROHRABACHER: Just answer your first point. I have a letter from Clayton Yigger, I will submit for the record, stating that this was not an issue of negotiation when he was head negotiator.

REP. COBLE: Well, as to whether you were denied the right to even see the language, that may be subject to interpretation, but I don't believe Dana you were denied that right because you addressed it when you appeared before us.

Let me go to the second letter. Second part of the statement is that the 20 year minimum was not required for GATT. A change in our patent form was in fact required by GATT. To comply with GATT as best I recall we had to provide a 20 year minimum from filing. We could however had gone further and provided a 17 year from issuance, whichever might have been longer, but we did not do that.

Now, I think, Dana, to say that no change was -- no change was required, I don't believe that's correct.

REP. ROHRABACHER: As per my conversation with the people who are negotiating for us, Mr. Clayton Yigger and before the current administration, I would just say that the language was written specifically to permit the United States to adopt a policy that would not require us to change the fundamental patent law. That's why it was written. To say that at the very least we have to offer a minimum guarantee of 20 years from filing.

It didn't say you have to have that as your standard. Otherwise it would have been written in a totally different way.

We were not required by that legislation -- and as it was purposely negotiated to give us this option. And I know it's easy to interpret the other way, but clearly things -- there's a purpose behind those wordings that give us, America, that lead way.

In other words, we could have passed GATT and been part of the GATT process without changing our fundamental patent law, and that was intentional on the part of our negotiators.

REP. COBLE: Well, not unlike the Gentleman from California, Mr. Berman, my time is rapidly elapsing. Let me touch on one more thing Dana. Again, on your June 13, 1995 appearance, you said, "every technological breakthrough which has changed the lives of mankind that have been based on patents issued to Americans have taken years and years, sometimes more than a decade, sometimes more than 15 years to issue." I'm not - strike that -- I started to say I'm not sure I agree with you; I am sure I don't agree with you. But we can talk about that at a later time, but I'd be glad to hear from you on that.

REP. ROHRABACHER: All I'll say is that if not every invention, every breakthrough invention; it's not every one. The vast majority that I have seen, and I will be very happy to have a list of -- that my opponents will come up with, see this only took two years to get through and this is a breakthrough technology and we'll have our list. But the fact is the list is so long on one side where it takes longer than three years to get through, that it is clear that there is a substantial loss of patent protection for major breakthrough technologies, like changing the basic patent law.

We have basically lived with the same patent law for 134 years, and we take it for granted that America is the most innovative country in the world. We say, oh well, that's part of our culture. You can't change the fundamental law and expect that America is going to remain the innovative country that it was. We have changed the basic rules for this. We have conformed to Japan. We have harmonized to Japan. This is going to change the way things work in the United States of America, and for people who think that it's not, we can watch ten years from now and see what happens. It's not just coincidence that Americans are the most innovative people, and we've come up with all of these good inventions. It's because we had that type of a patent system. Now, unless I am successful, unless we turn this tide back, we will not have that same patent protection, and we will not be the same America.

REP. COBLE: We'll continue this, Dana. I'm sure, Mr. Chairman, my time has expired. I thank the Chairman.

REP. MOORHEAD: Thank you. The Gentleman from Virginia.

REP. BOUCHER: Thank you very much, Mr. Chairman. Dana, welcome today, and thank you for sharing your views with us on this subject of genuine interest to this subcommittee.

Let me just get the benefit of your ideas with regards to a couple of approaches that we might be able to take that potentially would address the problem that you have raised.

Would there be any benefit, in your opinion, if we went to a first-to-file system. Today patents are calculated based on who invented first. And the person who is the first inventor is entitled to acquire the intellectual property interest. Suppose we decided to do what the rest of the world does and take that to a first-to-file system.

REP. ROHRABACHER: I'd have to take a look at it. It's not something I feel strongly about right now. I'd have to study the issue.

REP. BOUCHER: So you don't really have a firm view as to how that would effect --

REP. ROHRABACHER: I might after I studied the issue, but I just haven't studied that particular issue enough to give you any answer.

REP. BOUCHER: In Chairman Moorhead's bill there is a requirement that the patent application be published after 18 months following their filing. It is argued, as I understand it, by the proponents of that that by having that information made public at that time there would be an expansion of the prior art database to the benefit of many parties, and that would also be a potentially an effective way to prevent surprise and preclude the conduct of the submarine patent --

REP. ROHRABACHER: You'd be surprised --

REP. BOUCHER: Do you have any views with regard to that?

REP. ROHRABACHER: Sure. The people who will be surprised will be the inventors when they see people all over the world who have every little bit of information they have about their own creative endeavors. Now it's in the possession of people who are their economic adversaries, and didn't -- whole new industry created if this 1733 passes as it is now.

You will have an industry of -- all these lawyers are out of work in Washington now. They'll be hired on by all these companies all over the world to go to the patent office, pick up the publication, and FAX it to the various companies in Indonesia and Thailand, China and Japan. And that will be a great industry. I mean, they will make a lot of money doing it, and any new ideas that start springing up in the United States will be subject up to grand theft. It will be our debtors that will be surprised.

REP. BOUCHER: So your concern, stated in a sentence is that if we went to an 18 month publication rule that would simply encourage pirating of American innovations. Is that what --

REP. ROHRABACHER: I do not understand how anyone can take a look at the idea of publishing an application for a patent, disclosing all of the information about innovation and technological ideas that are being developed by the United States, I don't see how anyone in their right mind, basically, and I'm sorry to be so blunt about it, can think that people will not turn around and use that information for their economic benefit against us.

REP. BOUCHER: Well, let me explore that with you just a little bit. In the United States, if the information is pirated and put into practice and the technology is produced by someone than the inventor, under our current law even with the absence of the issuance of a patent, the person to invent would have the intellectual property interest and would therefore have a cause of action against anyone who expropriated what was his.

REP. ROHRABACHER: That's right. That's right in this country --

REP. BOUCHER: So the 18 month publication rule in regard to this country should not be problematic, do you agree with that?

REP. ROHRABACHER: I would think it would be problematic, but it would be -- if someone had enough money to enforce his rights by hiring the right kind of legal counsel, well then that person can probably secure his rights because he or she has the money necessary to do it. But what if the independent inventor doesn't have the money to do it? Overseas it's a disaster.

REP. BOUCHER: That's the bigger problem that you would foresee is the fact that people overseas would take American Innovation based on the 18 month publication and then put that technology into the market.

REP. ROHRABACHER: They'd run with it.

REP. BOUCHER: Okay. Let me ask you one additional question and I'm going to yield to my friend from California who has some follow ups. When you were answering Mr. Berman's question concerning the submarine patent holder, the person who sort of purposefully delays for a period of time having his patent issued so that he could claim the benefits of the intellectual property interest many years down the road after the technology has been put into practice by others, you have indicated an interest in taking steps then perhaps having provisions inserted in either your bill or Mr. Moorhead's or some combination of those two. That would prevent that practice from recurring. Did I correctly interpret your comments?

REP. ROHRABACHER: I have no desire to protect people who are engaged in what is called submarine patent manipulation. I just -- that is not the purpose of my bill. I have since day one begged people to come up with compromises with changes in the way the patent office functions, for example, to try to confront this issue. I have received no responsible offers in terms of types of reform that we could make other than simply saying, no we're just going to eliminate everybody patent rights to a guaranteed 17 years of patent protection. That'll solve the problem. And so forgot about reforming this system.

I am open to any reforms that we can take place over here at the patent office and their procedures that will prevent the kind of abuse we're talking about. In America, we're not supposed to punish the people who are innocent by eliminating their guaranteed patent protection in order to get to the guilty by people who are manipulating the system. Let's change the system and reform it. I'm open to that. I'm anxious to get on with that job.

REP. BOUCHER: Well, I want to thank you for that offer. I think that at the core of all of our concerns is the abhorrent practice of the submarine intellectual property owners surfacing well down the road, and we all want to make sure that doesn't happen. And your offer to work with us as we seek to address that is most welcome indeed.

I'll be glad to yield to the gentleman from California:

REP. BERMAN: One question, in all your comments, I'm a little confused. Do only foreigners steal American inventions? REP. ROHRABACHER: No, in fact --

REP. BERMAN: Do Americans ever steal it? Why is this always the foreigners are going to take our technology rather than an inventor who did something who's losing his right to get --

REP. ROHRABACHER: I will have to admit that it upsets me a lot more when a foreign company steals technology that was invented in the United States then when an American company tries to take advantage of situation and because --

REP. BERMAN: One is stealing, one is taking advantage of? Do they have longer sentences for foreigners?

REP. ROHRABACHER: It's stealing in both cases, but in one case we have a legal avenue to protect ourselves. When we open this up, when we publish this to the world about all these new ideas that we're trying to develop, many of our people are going to have absolutely no legal avenue to protect themselves against a company over in Thailand or in China or in Japan. They just won't have the resources or the legal avenue to do it. So with an American company -- I mean here's a guy who invented the windshield wiper, the intermittent windshield wiper, went to the major automobile companies, they said poo poo; and a few years later they stole it; and then they got it. There was a legal case. It took them a long time for this man to get his due, and he got his due. While overseas, that man trying to bring some overseas company to the point where they would have to pay him would be difficult.

REP. BERMAN: The whole purpose of Gat was to make -- get meaningful remedies against foreign interests to get protection for intellectual property abroad so that there would be remedies against foreigners. The whole trade off in all of this was to get some meaningful kind of protection abroad.

REP. ROHRABACHER: We've increased the level of protection, but if you're going to sit back and fly on that, and if we're going to make all of our people vulnerable based on agreements made by some of these countries and some of -- many of them are dictatorships, the bottom line is: We're going to see our technology ripped off as never before. As I say, it's an open invitation to the thieves of the world to grab America's ideas and use them for their own benefit.

REP. BOUCHER: Will the gentleman yield?

REP. BERMAN: I'll be glad to yield to my Virginia colleague.

REP. BOUCHER: I thank the gentleman for yielding. I'd like to follow up on the gentleman from California's point as well. Every other major industrialized country in the world follows this procedure of publishing --

REP. ROHRABACHER: There's only two other areas, Japan and Western Europe.

MR. BOUCHER: Western Europe is a pretty major area.

REP. ROHRABACHER: But it is not every country on the world.

MR. BOUCHER: I think Western Europe probably contains most of the other major industrial countries of the world. Follow this. Now, if their inventors, their companies, their individual inventors are being ripped off, left and right, by this system by all of the other foreign countries, if you will, why haven't they abandoned that process?

REP. ROHRABACHER: Because in other countries, they do not consider the rights of individual the way we do in United States of America. That's why we have most of the -- that's why most of the innovation happens in the United States of America. You look at what the Europeans have come up with and what the Japanese have come up with in these last 30 or 40 years, and you'll find American's are leading the way by a long-shot. It's not a close race even. It's not even close.

REP. BERMAN: Reclaiming my time -- the gentleman from Virginia's time. The fact of the matter is that while we certainly are a leader in innovative technology and inventions, and we certainly want to protect that, it seems to me that there are far other reasons for that than this difference in our patent laws. The German's, the French, the British, the Japanese have come up with a wide variety of areas of innovative technology and to me to suggest that it isn't our tax system, our productivity of our workers, other elements of the attraction to this country --

REP. ROHRABACHER: You're stretching it.

REP. BERMAN: -- of people from other parts of the world. That's the reason why we are a leader in this field. And to point to this simple difference between publication is --

REP. ROHRABACHER: Well, it's not a simple difference in publication. We're talking about publication, and we're talking about a guaranteed term versus an uncertain term. I will say the chair was asking about today is a fundamental -

REP. : May I ask the gentleman from Virginia to yield for a moment?

REP. BOUCHER: Mr. Chairman, let me do this if I may. Perhaps I could yield back my time and you can recognize each of these gentleman on their own.

REP. : Could I ask for just one moment? I just want to -- perhaps the reason that -- the real reason we have in your view been immensely more innovative and creative in terms of these technologies is that we actually have been because of the publication rules of these other countries stealing their technologies in advance, and that's why we've gotten the leg up. Would you care to comment on that?

REP. ROHRABACHER: I must say that I don't make light of this issue, and that question is making light of the issue.

REP. : It isn't really making light of the issue.

REP. ROHRABACHER: Give me an example of where we stole technology from overseas.

REP. : It really takes your argument and --

REP. ROHRABACHER: Can you give me an example of what you're talking about.

REP. : It really takes the concern that you've got and puts the shoe on the other foot. If that's the case, then that is presumably what American manufacturers have been --

REP. ROHRABACHER: I will answer your question. Right now, it seems to me that my colleagues who I respect dearly are bending over backwards to find some other explanation for America's greatness other than our fundamental law. The fact is that the Constitution of the United States includes patent protection. It is in our Constitution. This is something our founding fathers understood. Our founding fathers understood that technology and freedom would grant the average American a life much better than anyone else had ever dreamed in the world. Today we are changing the fundamental law dealing with technological innovation.

If we were dealing with other rights, the rights of speech or religion, you would not be -- there would be no questions making light of -- well maybe America's character was developed because we have such protection of speech and religion. There would be none of that. Because no one is going to harmonize the rights of speech and religion and assembly and other constitutional rights with those of another country, thus diminishing the rights of Americans. What we have here is a fundamental law that has protected our citizens, our creative citizens' right to property, the property they've invented; and we're trying to change it. That will change the essence of America's position in the world.

REP. : Let me say to the gentleman that you and I share one thing in common and that is we want to have a good sound strong patent system that protects U.S. inventors. I admire your efforts to make sure that somebody who is creative and inventive does get a period of time in which to reap the benefit of that. It's a system of reward. We give them a monopoly for a period of time in which to recover something their cost and their time and so on. I'm concerned, however, on the other side that we also not have a system that can be gamed in such a way that you can reap benefits for a far longer period of time.

Everyone in this room as bought many many products that on the product says patent pending on it. Many of the products that take a period of time to have a patent issues are sold during that time. Either by the inventor of the product or to another company for royalties.

So when you have -- I can't speak to any of the particulars of these. Although, I do know Phillips Petroleum, the first one you cite there, is a supporters of Chairman Moorhead's legislation, H.R. 1733. But each one of these, they're all quite old in the 50s and 60s, but each one of them or others could be situations in which individuals reaped more than 17 years. Far more. Maybe 27 years plus 17 in the case of Poly Propylene. That has the effect of slowing down innovative technology, and it has the effect possibly, depending on one's point of view, of going too far in terms of creating a monopoly and rewarding an inventor for too long a period of time. So I'm concerned about that aspect of the current system and of your legislation.

REP. ROHRABACHER: If there are abuses in the system, if someone's abusing someone else's rights -- if free speech is being abused in this country, the last thing we do is change the essence of laws protecting freedom of speech. What you do is you look at the abuses of freedom of speech. What we have done here now is instead taken a certain right, which is a certain patent right that Americans have had for 134 years, and made it an uncertain right because it has to go through the bureaucracy and the processes and lawyers are involved etc. and some people have less and some people have more depending on how they can --

REP. : It's uncertain right now, however, because if you're out to stretch out the process. You don't know how long you're doing to succeed in stretching it out.

REP. ROHRABACHER: If you were right now trying to stretch out the process, I am in favor of making the reforms that are necessary to prevent that. But you do not have to change and alter and diminish the fundamental rights of 17 years of guaranteed protection to do that. There's been no attempt, no attempt at all. By the way, the inventors aren't the only ones affected. If I could make one small short point. We're also talking about the investors. It takes a lot of money sometimes for people to develop these technologies. This investors that we have, have always known that they have 17 years to reap their reward from the investment that they've made. You're not only affecting the inventor when you eliminate that certain term of 17 years, you're telling the investors you may or may not have 17 years or beyond; and there's no amount of government subsidy for R and D that's going to make up for making the patent term uncertain.

REP. : But when somebody invests in one of these things the want one thing they want to know right away is how quickly you're going to get that product to market because that's where they are going to get their reward. So that is where they can identify how quickly they're going to get to market and how long a period of time after it gets to market relative to when the patent is filed that they will be able to reap some reward.

Let me say another thing about Chairman Moorhead's bill that answers many of the concerns that you've addressed, that actually exist in current law. And that is that during this patent pending time there is not full protection. You can get a cease and desist order, for example, but you cannot under current law sue for royalties. The chairman says that after that 18 month publication date, you will then be able to sue for royalties, giving you an added protection in this country, elsewhere in the world that you do not have under current law. I think --

REP. ROHRABACHER: Under the provisional patent right that are being offered that in the end the claim must be based on a patent that is identical, a claim that is identical to the final patent. Now, what we're talking about with patent pending -- people goes through these changes. I don't think a lot of people understand. When you file for a patent, you go through many different changes and the patent office actually requires you at times to change your patent application for them to pass on it at that stage. These things take six, seven, eight, nine years at times because the patent office itself is trying to do a good job; and they're trying to do their best job. This isn't even bureaucratic inertia. This might be conscientious decision making on the part of the bureaucracy.

So if you end up with a change in your patent law or your patent from that time, and somebody else is using that original information, but it's not identical to the one that's issued, then you don't have that patent protection, as Mr. Moorhead has suggested.

REP. : Well, let me also suggest that patent pending has additional power to it. You know that if you're looking at going in and competing and that patent does issue a few months later or a few years later, then you're facing much more serious consequences for having infringed the patent; but I think he does enhance that by giving that an additional protection that allows you to sue --

REP. ROHRABACHER: If you have the money.

REP. : -- under your patent pending --

REP. ROHRABACHER: If you have the money to sue and to protect yourself, that's fine with domestic companies. With foreign companies, it's almost inconsequential compared to the benefits that they're going to get by having the total details of technological ideas that you have been developing.

REP. : Will the gentleman yield for just a minutes?

REP. : Sure, absolutely.

REP. : Just on that question, Dana, you suggested that your major problem with the 18 month publication is that that would spread the information around the world. Companies in other countries would pirate the technology and use it. But in those other countries, the patent right extends from filing, and the first to file gets the right. So why couldn't the

U.S. inventor at that time or just prior to the time that he is required to publish in the U.S. at 18 months simply file his patent application internationally and get guaranteed type of protection in all of those countries?

REP. ROHRBACHER: I'm not sure how long that process would take. Again I'm not an expert on the first to file option. I will look at it and ask advise from people who understand that. It might be a very expensive proposition to file in another country, and maybe some inventor might not have that or -- so I'm just not certain of that answer.

REP. : Let's take a look at that because I think we're going to here from the proponents of 18 month publication, that that is the answer that simply filing around the world gives you the guaranteed first right of intellectual first property protection.

REP. ROHRBACHER: I'd have to take a look at it. Again I'm not-- I haven't studied that international law. REP. : The gentleman makes a good point. The chairman's already pointed out that the vast majority of inventors do that right now to assure -- and under the current set of circumstances, because they have to publish it in Japanese or whatever other language, it then surfaces at 18 months in a foreign country. I'm not certain somebody who has a language advantage --

REP. ROHRBACHER: How much does it cost to file a patent in Japan, for example? I'm not sure what the costs are that are entailed. If we basically are saying to our own American citizens that you have got to incur the extra expense of filing in other countries at the same time before you'll get the protection afforded you as an American, I'd have to see how much it would cost; and also, I don't necessarily feel comfortable about basically insuring our own protection by making sure someone has filed in foreign nations. We have 14 percent of all inventors today file their patents in Japan. There's has to be some reason for that.

REP. : I well exceeded my time, Mr. Chairman.

REP. MOORHEAD: The Gentleman from Ohio.

REP. HOKE: Thank you, Mr. Moorhead. I wanted -- actually the questions that I had really follow what the observation of Mr. Boucher had and some of the earlier comments of Mr. Goodlatte. I think rather than ask a question, I just want to make one observation to recap it; and that is that I think what we're really -- the concern that you have regarding the change in the patent law is a very narrow set of factual circumstances that go to the case of the individual inventor or corporate inventor in the United States what chooses only to file his publication or patent application in the United States because once -- if a person, if an individual inventor in the United States makes the decision to file internationally, then by law those applications outside of the United States will in almost every circumstance be published and not only be published but be published, in fact, in the native language of the particular country.

REP. ROHRBACHER: That is correct.

REP. HOKE: And so I think it's important for us to remember as we think about this change and these two different pieces of legislation that we're talking a about a very narrow --

REP. ROHRBACHER: It's a question if I could answer it.

REP. HOKE: That we're talking about a specific set of facts that go to the case of the American corporation or inventor choosing only to file the patent application for protection in the United States and not to seek protection for their invention abroad.

REP. ROHRBACHER: If I could answer that. There are only two other areas that have really what we're talking about patent law that is applicable here. We're talking about Japan, and we're talking about Western Europe. By changing -- by basically harmonizing our law with that of Japan, what we are doing then is eliminating the one safe haven left for the creative individual. If one thing that we prided ourselves on because we will be exactly like Japan and the reason why, the reason why --

REP. HOKE: Reclaiming my time. I would really like to get to the rest of testimony. I suspect that they're going to speak to that issue specifically. Thank you, Mr. Chairman.

REP. MOORHEAD: I want to thank the gentleman from California, Mr. Rorhabacher for his testimony. I ask unanimous consent for the following letters to be a part of the record following Mr. Rorhabacher's testimony. A letter dates July 24, 1995 from the White House Conference on Small Business. Signed by the nine chairman of the Technology and Innovation Section indicated that the technology and innovation section of the conference was overwhelmingly not supporting H.R. 359. Mr. Kurt Brenner, Editor of the New York Times, and Secretary Brown and Mr. Rorhabacher dated July 16, 1995 (inaudible) that the administration knew that this was a problem with H.R. 359. I would also like to point out that these are major -- undoubtedly if they wanted protection overseas, they would file both in European patent offices and Japan they both be published --

REP. ROHRBACHER: I'm uncertain of that.

REP. MOORHEAD: It would be. As far as the time limit is concerned, I don't know why each one took so long, but I do know that it was at no fault of their own. This is the (inaudible) place under the new legislation they would end up with 31 years. That's a ten- year extension -- one year provided provisionally of the 20 years. So you got 31 years.

REP. ROHRBACHER: If the patent office is responsible, and if everything works as it should--

REP. MOORHEAD: I have to check into it to find out why they take so many years.

REP. ROHRABACHER: Mr. Chairman, these are only three examples. There are many many others examples. You'll hear witnesses later on tonight in this hearing who will describe many other inventions that took many -- much longer than the three or four years we're being told it takes to issue a patent.

REP. MOORHEAD: There's one more question that someone wanted me to ask. On June 26 of this year on the House floor the following changes of (inaudible). In the long run (inaudible) the facts are that it will be another four years before we go patent (inaudible) issuing less than 17 years, and if that's the case, the subcommittee has 16 years to correct such a problem. You have any facts or statistics or data of any kind to support your statement?

REP. ROHRABACHER: Because we're not just talking about royalties. We're also talking about money that is dedicated and invested by people who are investing the research and development. Although, your challenge is correct in the sense that it will not affect the inventor for another couple years directly, but it will affect people who are inventing -- inventors of current technology. The process of developing new technology with R and D is already being affected by this change. When you have people who are being asked to invest in the development of new technology, they are no longer at this moment, they are not being given the same guarantees that they were given two years ago. Two years ago they could say, well you would have a guaranteed 17 years to make your money back no matter how long it takes to get through the process. Those investors now have a totally different proposal being given to them. So it's already affecting investment in the United States and after about a year or two we'll see that and be able to calculate it.

REP. MOORHEAD: Well, thank you very much, again. I appreciate, Dana, your coming. I want to say that I left this part of the discussion wide open as far as time because I wanted you to have all the time you possibly needed.

REP. ROHRABACHER: Mr. Moorhead, I appreciate your --

REP. MOORHEAD: -- the first panel basically supporting my bill. The people on the panel will be limited to five minutes. Those supporting Mr. Rohrabacher's bill, they're going to get six minutes.

REP. ROHRABACHER: Mr. Chairman, I thank you very much. I appreciate the debate we've had over the last year. I appreciate your job as chairman. It's a rough job. When you got passionate members like me, it's even more difficult. Thank you, Mr. Chairman.

REP. MOORHEAD: Our first witness on the next panel will be James L. Ferguson, an inventor and president and founder of Optical Shields Incorporated located in Mineral Parks California. Mr. Ferguson holds over 100 U.S. patents, including liquid crystal display, the LCD that has licensed Moorhead than 40 domestic and international companies. Over 5 million LCD units that produce watches, calculators, and medical equipment to name a few products. Over 100 jobs are attributable, produced, sold (inaudible). It's a pleasure to have you here, Mr. Ferguson.

MR. FERGSON: Thank you.

REP. MOORHEAD: Our next witness is Professor Mark Lemley, from the University of the Texas School of Law where he teaches intellectual property secure law. He is the author of two (inaudible) books and numerous articles on the related subjects. (inaudible) importance to these hearings, Mr. Lemley authored an article which comparatively evaluated the benefits of 17 year (inaudible). He received his bachelor degree from Stanford University and his law degree from (inaudible) University of California at Berkley.

Our next witness is Richard Butler, an inventor and vice president of the patented technology at Illinois School Works. His work experience includes being an aerospace engineer at the (inaudible) for NASA, the patent examiner of the U.S. Tax and Trademark Office and a patent attorney. Welcome, Mr. Butler.

Our next witness is Mr. Bill Buttenger, who is also an inventor and the CEO and founder of Rodel Incorporated, a small business in Delaware which manufactures products used by the teleconductor industry for manufacturing of integrative systems. He owns more than 3 dozen patents. He is a founding board member of the Delaware Innovation Fund and (inaudible). Welcome, Mr. Buttenger

Our next witness is Mr. Edward Stevens, the general counsel, secretary and vice president of Apple Computers, Incorporated. He heads the Apple legal practice. Mr. Stevens is involved in some of the most sound breaking technology issues facing the computer industry today, including protection of intellectual property and licensing. Welcome, Mr. Stevens.

Our next witness is Mr. Roger L. Mae, who is assistant general counsel for intellectual property for Ford Motor Company. (Inaudible). was in private practice. He was examiner at the U.S. Patent and Trademark Office. He is a member of the Technology Committee of the Center of Public Resources of the Michigan patent law association. Our last witness on the today's first panel is Mr. Steven H. Farmer, an inventor and CEO of Integrated Services Incorporated (inaudible). He served as the delegate for the 1995 White House Conference on Small Business and is involved in several trade organizations. He's responsible for over seeing the developmental relations, business transactions, general operations of ISI. Welcome, Mr. Farmer.

We have your written statements. I ask unanimous consent to be made a permanent part of the record. I ask that each of you summarize your statements in five minutes or less. I ask that the subcommittee hold their questions until all of the witnesses have finished their speech. We will begin with Mr. Ferguson.

MR. FERGSON: Thank you. I'm pleased to talk today about -- I'm an (inaudible) inventor. I presently have 23 U.S. pending applications. I have four patent cooperation treaty applications with U.S. designations. I have three European patent convention applications in 27 other foreign filings.

I am here to speak about the importance of publication and term measure from the date of filing. I believe that both of these are very important, particularly, the publication. Patents are -- I regard as is social contract if which we are out there to start new businesses and build new technology. I believe that with publication we are able to more accurately assess the need for our investment and whether somebody is going to come out of the woodwork and disrupt our investment. I think that 18 months is maybe a little bit too long. Ideally, I would like to see a patent system where you filed it in the morning, got the patent issued at noon and published at night.

I think that patents are -- I have to go to Japan for information now and pay for translations. I pay for my own patents and therefore it's very costly for me to do that. By knowing what's coming and knowing what's going to happen, I can know how to spend my money, which patents to emphasize and also I have never observed publication as being a problem. I regularly file PCP patents which are published in 18 months. I've been ripped off but it's never been rip off in terms of the 18 month publication. Thank you very much.

REP. MOORHEAD: Thank you. Mr. Lemley.

MR. LEMLEY: Mr. Chairman, honorable members of the subcommittee, good morning. Representative Rorhabacher has been raised significant concerns about the effect that the new 20 year term will have on patentees in this country. Last fall I commissioned a study which, as far as I know, is the only comprehensive detailed study of the actual effect of the 20-year term on American patentees. The study was submitted to this committee in June and subcommittee for publication. It will be published this month in the American Intellectual Property Law Association quarterly journal. You have a copy attached to my testimony.

I want to highlight briefly just five major findings of this study because I think they are important to this debate. First, the average patent owner wins under the new 20-year term. They gain, rather than lose protection. Under the most realistic set of assumptions, they gain an average of 426 days or 14 months of protection over the 17-year term. Even under the most pessimistic assumptions, they gain 253 days or 8.5 months.

Second, it's not just the average patent owner who gains. The vast majority of patent owners win under the new law. Under the most realistic set of assumptions in my study, 87.1 percent of patent owners in the United States gain term under the 20-year term. Even under the most pessimistic assumptions, 76.8 percent, over three quarters, gained time. This is not on balance hurting American inventors.

Third, only a tiny percentage of patent owners in this country risk significant losses. Losses of two or more years of protection under the new term. Under the realistic assumptions in my study, only 2.2 percent of patent owners would lose two or more years of protection. Even under the most pessimistic assumptions, only 5.3 percent of all American patent owners would lose 2 or more years. I might note there that even those numbers do not take into account the various term extension provisions that have been enacted into the new law to protect against things like delay due to interference, delay due to appeal and they do not take into account H.R. 1733 and the proposed additional provisional protection that Chairman Moorhead has offered. In fact, therefore the numbers I would expect would be significantly less, even in these small percentage of people who lose under the new law.

Fourth, nearly half of the patents that lose a significant amount of protection, 48 percent of them. The cause of delay was the applicant him or herself abandoning and refiling the application in the patent office three or more times during the course of prosecution. These are not delays that are inherent in the patent process. These are not delays that are the fault of the Patent and Trademark Office. These are delays that the patent owner or applicant can do something about. Can shorten or reduce the total delay.

Finally, there is no evidence that I have seen that suggests as Representative Rorhabacher did, that the most important patents are the ones that take longer in the Patent and Trademark Office. It's not possible to study that question directly because there's no measure any where of what the most important patents are. But I did study the litigated patents. The patents that people care enough about actually to take to court to enforce. What I discovered is that there's no difference between the litigated patents that are actually enforced. That are held valid by the courts, and those that are found to be invalid. They take on average almost exactly the same amount of time. Indeed, some valid litigated patents that were of sufficient importance to invest the money in enforcing against infringers issued from the patent office in as little as eight months. So what little evidence we can find suggests that it is simply not true that all break through inventions or all important patents spend a significant amount of time before the Patent and Trademark Office.

I think that this data suggests that the need or H.R. 359 is not nearly as great as has been suggested by some individuals. I hope that's of use to the committee.

REP. MOORHEAD: Mr. Stead.

MR. STEAD: Thank you, Mr. Chairman and members of subcommittee. I am here on behalf of the Apple Computer. I think you'll recognize the creator of technology and we're located in California, Cooper county California. I'm also here on behalf of Informs Technology Industry Counsel which is head quartered here in Washington. ITI members represent the leading providers of information technology products and services worldwide revenues in excess of \$300 billion in 1994 and more than 1 million employees in the United States. Our members are consistently at the very top of the list of all companies receiving U.S. patents.

In the information age, in which knowledge is the point of the realm, the U.S. information technology industry is the world leader. This is because we create the intellectual property that provides the added value that is most in demand. From patent system, on the corner stones of protection of intellectual property.

We're here today to support H.R. 1733, your bill Mr. Chairman, and to express our obligation to H.R. 359. The Moorhead bill improves the patent system by providing additional protection for inventors, including individual inventors against delays in the patent office. The Moorhead bill is a step forward. In an industry in which advances in technology occur at every increasing speed, H.R. 359 would create significant uncertainties which would impede our members ability to compete in a global economy. H.R. 359 is a big step backward.

I'd like the deal with some of the issues that were raised earlier by the committee. One had to do with the constitutionality of the current law. The Constitution provides that the Congress will decide how to protect an inventor. The Constitution does not say you get 17 years or you get 20 years. That's up to the Congress. That's what we're here to talk about today. I think that the 17 years --a lot of emphasis has been put on the 17 years certainty versus 20 years of uncertainty. To me the only certainty is in the 20 year term. The 17-year term is the uncertain term.

We had a specific example in Apple recently where an application was originally filed in 1965. The patent went through five successive series of cancellations and refileing. A patent was ultimately issued in 1993. No one knew what the patent was for that 35 years. We knew what the invention was for that 35 years. I'm not sure if the inventor knew what the invention was for that 35 years, but in any event when the patent finally issued, it was asserted against Apple Computer. It was asserted against all of our computers which we had been producing, developing, designing, and marketing for some period of time. The cost us substantial amount of money to defend against that claim.

That's the problem that we'd like to see dealt with in the 20- year term which will provide certainty. The 17-year term in our judgment does not do that. In a global economy, I think it's ridiculous to think that you can hide an invention. (inaudible) We're dealing with a system, a global system which inventions are disclosed after 18 months. Let's get them out there. Let's get to work and start producing.

Recording the delay issue, I think where delays is caused by the patent office the Gat provisions in the Moorhead bill would allow for extension. If inventors knew they were operating under a new system, they may well have acted to speed up the processing of their claim, rather than to delay it. I think in a global economy, we need to be set up. Delay is not going to help us. I think the number ask something like 45 percent of the patents that are granted today in the United States are foreign applications. So to think that we're protecting anyone is beyond my imagination.

Regarding small inventors that were supposedly try to protect, small inventor in the case I cited happens to live in Nevada where he doesn't pay any taxes, and he spends a lot of time skiing. His lawyer, who, I guess he can afford, is among the highest paid lawyers in the country. So, I don't think money's an object here. I think we're dealing with a real abuse of the system under the old system, and I don't see how anything other than a Moorhead bill would deal with the abuse in the system. I have seen no effort, in spite of efforts on our part, to try and make any accommodations to deal with this abuse in the system.

I think the Moorhead bill does it, and I think we ought to get on with it. As far as the this chart that was put up, I think a number of the examples that were on the chart were deliberate delays on the part of the inventors and deliberate delays shouldn't be compensated. Where there's been delays by interference procedures, that's taken care of in the current legislation. Few situations may have been caused by the patent office where the patent office caused delays. Those can be directly dealt with under the Moorhead bill. So I don't see the problem here.

I think in your opening comments, Mr. Chairman, you dealt with the improvement that you bill put forth on Gat, and I don't see any need to go into that. Just to kind of nit it out, I think that the -- I think it's important that we have some certainty in this system. I think we have with the new Gat legislation. I think we have more certainty than we had before. I think that the improvement offered by the Moorhead bill provide additional certainty and accommodation where it's needed. I would urge the committee to support the Moorhead bill. REP. MOORHEAD: Thank you. Very unfortunately, we have a vote on the floor. The rule on this Partial (inaudible) Abortion Act. I'll get back to as fast as I can. I hope that many of our panelists will opt to come back as soon as they can, and we'll get started again. Thank you. LANGUAGE: ENGLISH

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OF THE HOUSE JUDICIARY COMMITTEE

SUBJECT: PATENT PROTECTION LEGISLATION

CHAIR BY: REPRESENTATIVE CARLOS MOORHEAD (R-CALIFORNIA)

WITNESSES:

REPRESENTATIVE DANA ROHRBACHER (R-CALIFORNIA)

JAMES FERGASON, PRESIDENT, OPTICAL SHIELDS

MARK LEMLEY, PROFESSOR, UNIVERSITY OF TEXAS LAW SCHOOL

THOMAS BUCKMAN, NATIONAL ASSOCIATION OF MANUFACTURERS

WILLIAM BUDINGER, RODEL, INC.

EDWARD STEAD, APPLE COMPUTER

ROGER MAY, MICHIGAN PATENT LAW ASSOCIATION

STEPHEN BARRAM, CEO, INTEGRATED SERVICES, INC.

RAYMOND DAMADIAN, INVENTOR

JAMES CHANDLER, PRESIDENT, NATIONAL INTELLECTUAL PROPERTY LAW
INSTITUTE

ROBERT RINES, FRANKLIN PIERCE LAW CENTER

DIANE GARDENER, MOLECULAR BIOSYSTEMS, INC.

BODY:

REP. MOORHEAD: The subcommittee on courts and intellectual property will come to order. This morning we meet to take testimony on two bills pending before the subcommittee: HR359 and HR1733. We have the receipt of a number of requests of statements and letters made a part of today's hearing record.

I have unanimously accepted the following statements be made part of the record: it's a part of HR 1733; a list of 60 U.S. companies and 14 national trade associations. In addition, we have the business and software (inaudible), the Pharmaceutical Research and Manufacturers' Association, the Generic Pharmaceutical Industry Association, Intellectual Property Owners, Chemical Manufacturers' Association, Genitec/Biotec Technology Company, a statement of the Biotec Organization representing 500 Vedic companies, departing the 20 year term of the recommended amendment, HR1733, concerning delays caused by the PTO, letters signed by five of the last six former commissioners, the PTO in support of HR359, we have a letter from Congressman Baker requesting a letter from Mr. Fishman be part of the record, a statement from the American Counsel of Education, a letter from Mr. Chris Wells representing the Oklahoma Inventors' Congress, a letter from Mr. Lawyer a patent attorney, a statement from Ronald Riley, Alliance from American Innovations. Without objection, so ordered.

This morning we continue hearings on important legislation. I would like to take a few minutes to provide some background on why I believe HR1733 is important.

After World War II and during the Cold War, the United States used trade policy as part of a strategy to help rebuild the economies of Europe and Japan and to resist communist (inaudible) inflation.

We led the world in global efforts to dismantle the trade barriers and create institutions that would foster global growth. But now we're no longer the sole economic power in the world. We are the world's largest economy, and world's largest trading nation. Our economy, which represented 40 percent of the world's output following World War II, now represents 20 percent.

Europe and Japan rebuilt, became tough competitors. The newly industrialized nations became increasingly protective, winning a share of the U.S. market many times without losing their equality. Although we welcome the product

services and investment of other nations in the United States, now we must insist that the markets of our trading partners be opened for product services and investments for the United States.

We will no longer tolerate free riders of the global trading system. We insist upon reciprocity in our trade agreements. This is a critical change in the way view both trade policy and foreign policy. The road to prosperity is not always smooth. Sometimes our trading partners will have economic problems. We must remember that the success of economy is inextricably linked to the economies of other nations.

Some would have us follow the ostrich approach; if we just stick our heads in the sand, the problems of other nations will simply go away. But history has shown that cutting ourselves off from the world is a sure formula towards the less successful and prosperous country.

Intellectual property protection has set a significant feature of our trade policy. Negotiating strong intellectual property agreements and enforcing them has taken on new urgency because of the increased importance of our intellectual property industries to our national competitiveness.

Our copyright industries are growing at twice the annual rate of our economy, and employing new workers at almost four times the annual rate of the economy as a whole. Last February, I participated in a press conference in which a report entitled "the copyright industries the U.S. economy from 1973 to 1993" was released.

This report, which contains impressive figures, was prepared for the International Intellectual Property Alliance by Economists, Inc. Let us take a moment to highlight some of these figures because I think they're indicative of just how important the intellectual property industries are today's economy and to America's economic future.

In 1993, the copyright industries account for 3.7 percent of the United States' gross domestic products. This mean 238.6 billion dollars. Between 1977 and 1993, employment in the U.S. copyright industries more than doubled to 3 million workers, which is 2.5 percent of the total U.S. work force.

Between 1988 an 1993, the U.S. copyright industry grew almost four times the annual rate of the whole economy; 2.6 percent versus .7 percent. The copyright industries contribute more to the U.S. economy and employ more workers than any single manufacturing sector, including aircraft, primary metals, textiles, apparel or chemical.

In 1993, the U.S. copyright industries achieved estimated foreign sales of 45.8 billion dollars. After automobile and parts, the copyright industry is the second largest industry in export.

A global economy offers tremendous opportunities for American workers. Over 11 million workers in the United States owe their jobs to export. These jobs pay higher wages on the average than the jobs not related to trade.

Every billion dollars of exports support 17,000 jobs. Clearly expanding trade is critical to our efforts to create good, high wage jobs. The global economy will not disappear. We cannot turn our backs on the clock. Even if we could, we must face the fact that the United States has a mature economy, and we have only 4 percent of the world's population. Future opportunities for growth in the United States will depend in part on providing goods and services to the other 96 percent. Given this fact, opening markets, expanding trade and enforcing our trade agreements are important to fostering growth in the United States.

What this hearing is about this morning is whether we go forward and strengthen our inventors and our industry to compete in global economy, or do we roll back the gains that we have already made.

I'd like to spend the next few minutes talking about HR1733 and the newly created 20 year patent term. The old law was that your patent lasted 17 years to the date of issue. The new law as of June 8, 1995 is that the patent will last 20 years from the date that you filed with the Patent and Trademark Office. That commitment was made in substance (inaudible) agreement, as well as in the 1994 bilateral executive agreements with Japan.

The twenty year term invented agreed upon point and gap for at least the four or five years, through republican and democratic administrations alike. This is common knowledge. The idea of the 20 year term is not new. The 20 year proposal almost identical to the present law was recommended for the U.S. by President Lyndon Johnson's commission on the patent system in 1966.

And Secretary of Commerce Mossbacher commission on patent law reform in 1992. I did not vote in favor of GAT implementing legislation for a number of reasons, none of which concerns the intellectual property provisions of GAT. To the contrary, I do know that the copyright and patent provisions of GAT are good for the United States and supported by every major national copyright, patent and bar association that takes an interest in patent and copyright law. The overall pendency, from filing to the issuance of a -- or abandonment for patent application decreased from 19 1/2 months in fiscal year 1993 to 19 months in 1994. For computers, pendency was reduced from 28.5 months in 1993 to 26.5 months in 1994. In the of vinyl technology, pendency was reduced from 22 months to 20.8 months. GAT will add an additional 36 months to cover this examination period.

In January of August 1994, the Japanese agreed to make substitutive changes in their law to benefit the United States (inaudible) in exchange for the patent and trademark office recommending the 20 year term for filling an 18 month publication. The change the U.S. wanted to make anyway.

The features in the Japanese patent system that create problems to the United States businesses, according to the general accounting office study released in July 1993, are 1) they do not permit filing applications in the English language. As of this past July it is now possible for U.S. applicants to file patents in English. 2) the time it takes to obtain a patent is much too long; five to seven years. As of January 1, 1996, if we keep our part of the agreement, examinations will conclude in 36 months. 3) the permit competitors -- they permit competitors to oppose the issuance of a patent before the patent is issued. This practice will abolish next year if we keep our side of the agreement.

They permit competitors whom develop minor improvements to obtain compulsory licenses for basic technologies developed by the U.S. businesses. This practice will be limited.

These are the Japanese practices they have agreed to change in exchange for the 18 month publication and the examination. To further protect patent applicants, the present law would extend the 20 year term for the patent for up to five additional years to compensate when an applicant is involved in a proceeding to determine who was the first to invent or an appeal of an examiner's decision in a court proceeding.

This protection will further insure that the patent will not suffer any loss of terms. In addition to these protections, present law adds an additional year for what is called provisional patent application. This adds an additional year in which the applicant can develop claims and potentially seek investment for development of new invention.

During this provisional year, the inventor retains his rights to an early filing date as the 20 year term doesn't start to run until the non-provisional application is filed. Which amounts to 21 years of affected patent terms.

Our old term of 17 years (inaudible) from the patent ground was being abused by a few inventors and interfering with the patent's system objective of stimulating progress and technology. I find success of continuing applications on the same inventions the original applications remain submerged in the Patent and Trademark Office in secrecy year after year.

Its legal abuse -- its legal means of intentional delay perpetrated by the inventor until the company has grown up around an existing company, begins using the inventor's original idea. Once the patent is granted, sometimes as much as 20 to 30 years after filing, the inventor can demand significant licensing fees for continued use of the now patented process. This usually comes as a brutal surprise to the companies that manufacturer in the U.S., both foreign and domestic. All foreign countries have the safeguard of measuring the term from filing date. The significance of these submarine patent lies not in the number of such cases but in the destructive effects caused by such cases.

The U.S. patent system is designed to cause inventors to disclose inventions to, as the U.S. Constitution says, to promote science and the useful art. In return, patents provide inventors with 20 years of monopoly.

Submarine patent abusers do not disclose anything, just the opposite, they deliberately keep their inventions secret. Then after decades of delay they cause the patents to issue so that they can collect royalties from existing businesses.

These submarine patent are intended to be a weapon against legitimate business.

In June of this year, Pat Schroeder and I introduced a bill Hr1733 that would further insure a 17 year minimum for any issued patent that was delayed through no fault of the patent applicant. First the bill would bring the U.S. in line with the rest of the world by requiring that all patent applications be published in 18 months.

Why have publication in 18 months? First, it will place our domestic inventors on an equal footing with inventors in foreign countries; all of whom have access to published patent application technology in their own language 18 months after filing.

Remember over 45 percent of all applications filed with the PTO are from foreign applicants, who file their own key note in their own country and whose application is made public in 18 months. Of the remaining 55 percent, over half are also filed in foreign countries. Therefore, between 70 and 80 percent of all patents filed with the PTO is already made public.

Of course, all patents issued in the U.S. are made public upon issuance. The average U.S. patent takes about 19 months until issuance.

Second, 18 month publication will make it more difficult to manipulate the system by use of the submarine patent.

HR1733 takes an additional step to protect those who may want their application published and upon request of the applicant publication will not take place until three months after notification by the PTO that the application is denied, giving the applicants time to list all his application and use the trade secret route.

In addition, what if your patent application is published and your patent doesn't issue until 12 months later? HR1733 has what is called a provisional rights section that allows the patent applicant once his patent issues to issue a reasonable royalty -- to sue for a reasonable royalty anyone who may have used this patent after it was published.

This is a right the patent applicants do not have today. For example, we have all seen that notice patent pending. What does that mean? In the practical matter, a notice of patent pending may scare off some competitors. If someone uses your patent before it is issued you have no rights to a reasonable royalty for that use.

However, under HR1733's provisional rights provision and in conjunction with the 20 year patent, patent users are assured of at least 18 1/2 years of patent protection regardless of patent pendency.

If a provisional patent application is filed, or if a publication is requested earlier than 18 months, the original patentee could obtain up to 19 1/2 years or more of patent right.

When Mrs. Schroeder and I introduced HR1733 we added a provision which would take care of criticism of the new term without neglecting what we gained from the 20 year term. What we added is a fourth contingency to the present law that would permit the Commissioner of Patents to extend the patent terms for any time lost as a result of a delay caused by the patent office. If the government delays, the government pays.

Term extension under this section of the bill is punitive and up to ten years can be restored to a patent. With HR1733 every possible avenue of delay of a patent has been covered. The U.S. system dates from the earliest days of the republic, and the current law is basically that adopted in 1837. Some changes in our patent system have been necessary to comport with the 1990 -- 21st century.

The changes proposed by HR1733 reflect a well-reasoned, informed approach to modernizing U.S. patent law. I believe our hearings this morning will support that conclusion, and I'll recognize our ranking member, John Conyers.

REP. CONYERS: Thank you, Mr. Chairman. I have a copy of your statement so I want you to know that I support what you said in it. I came here, first, to explain that our colleague, Pat Schroeder, is unable to be here because of a partial birth/abortion ban bill on the floor at this moment. And I know have to add that I will soon not have to be here -- I will not be able to be here because there is a fair chance of defeating the rule on that.

I wanted -- and everyone of course knows, as you've mentioned, Mr. Chairman, that Ms. Schroeder is supporting you in your proposal HR1733.

I ask unanimous consent that my statement be entered into the record, and because Mr. Rohrabacher has been waiting for these several minutes and we've got one of the longest witnesses list that I've seen at a subcommittee this year, I'll yield back the balance of my time. REP. MOORHEAD: Are there other opening statements? If not, our first witness this morning is our colleague from California's 45th District. He testified in August in 1994 before the subcommittee of two bills, Senate bill 2368, which contains actually the same language of the 20 year -- the three month term and was later adopted in GAT pending legislation. On behalf of the subcommittee, I want to welcome our colleague; look forward to his testimony.

REP. ROHRABACHER: Thank you very much, Mr. Moorhead, Mr. Chairman, Mr. Vice-Chairman -- Mr. Conyers I should say, and all of the other members of the distinguished committee.

Last year with the GATT implementation legislation was passed it established an uncertain patent term of 20 years from filing. The word uncertain patent term is very significant. I was upset because the GATT agreement did not require us to abandoned America's guaranteed patent term, which for 134 years was set at a minimum of 17 years from grant.

So we went from a certain and a guaranteed patent term to an uncertain and unguaranteed patent term. Thus, by misusing GATT's fast track process a change of vital importance to our nation was enacted into law without so much as an up or down vote on the issue. This less than democratic tactic has given us a patent law which reduces the rights certain of every individual American and in the long run threaten our nation's competitiveness and prosperity.

The United States has always had the strongest patent system in the world, and is now the world's leading producer of innovative, breakthrough technology and ideas. That didn't just happened; that happened because we were -- all of these years had a certain type of guaranteed patent protection, and that's why we've had, and have today, a 20 billion dollar balance of payments surplus in royalties and license fees.

In the past, innovators were confident that they would have 17 years of patent protection no matter how long it took the patent office to issue the document. Venture capitalist were confident too. That was 17 years of guaranteed ownership of new technology they could recoup their investment.

That led to an avalanche of accomplishment by independent inventors. I have a chart here which indicates some of the most important inventions of this century have been invented by independent inventors, whether we're talking about the zipper which is not important but perhaps things like power steering or air conditioning. Even the ball point pen; and even when we're talking about health care issues, magnetic renaissance imaging, titanium, penicillin, the vacuum tube, insulin, and the list goes on and on were invented by independent -- the jet engine, FM radio, etc., etc., etc.

These are important inventions that have given us a dramatic edge in the international competition that we're talking about in this global market place, they were invented by independent inventors because they knew they had a guaranteed property right to 17 years of protection.

These ideas have established whole new industries in this country. Currently the revolution in bio-technology is dependent on patent protection, yet, of course, we know that others would like to steal the product of America's investment into bio- technology, especially foreign interests.

No amount of government subsidy will be able to make up in the loss in venture capital that will result in the compromising of patent certainty and patent protection in the United States. Big domestic and foreign corporations obviously who are users of technology, rather than creators, they believe that the patent system -- and they've wanted to weaken the patent system for a number of years and you can see why. You can see why automobile manufacturers in the United States, or even in Japan, may not want an innovative patent term when it was innovators, independent innovators, who came up with innovations like power steering and automatic transmission.

Obviously these very powerful interests, foreign and domestic, would rather just use these ideas without paying royalties. The issue at hand is eliminating the 17 years of guaranteed patent protection and replacing it with 20 years of so-called protection that depends on patent office bureaucrats and the ineffectiveness of outside interference in the process.

And I might say with the (inaudible) formula that we're being asked to accept, the people who will have the most leverage in the patent system in the future will be those people who can hire the best lawyers and pay the most money to affect legal decisions.

We have -- the issue at hand, as I say, is whether we're going to eliminate the guaranteed patent protection or replace it with 20 years of uncertain patent protection.

And we have another chart here that shows that -- how this would have impacted if this law had been in place. Three of the most important inventions, which is crystallin polypropylene, which is basically something that we see every day in stores throughout the world in the use of bottling; it took 27 years to issue that patent.

Under the system that we have just replaced, the one that we have just created with no up or down vote by Congress, the protection would have been no protection for Phillips Petroleum, which put a lot of money into investing in R&D to come up with this product. And they made 300 million dollars on this patent under the system before we changed it.

The laser took 20 years to issue. It would have had no protection under the current system that we've just put in place. And by the way, both of these had 17 years of protection under the old system.

Then, of course, the microprocessor which took 17 years to issue, and it had three years of protection -- would have to have three years of protection under the current system, it had, of course, 17 years under the old system. Thank you very much.

Of course when you decrease the number of years of protection that means overseas interests don't have to pay royalties during that time period. Remember that. Now even worse, there's a push, and this a disagreement -- an obvious disagreement -- but I think it is a lethal disagreement, there is a push that all patent applications need to be published 18 months after filing, which is the essence of HR1733.

Whether or not, the most important element of this is that these applications are going to be filed whether or not the patent has been issued and the ideas are protected. That's the basis of 1733; the patent application publication act. Even though many of the bills co-sponsors seem to be unaware that the central purpose of the bill is publicizing patents before they are protected.

HR1733 publishing, any type of patent application before it receives patent protection, would be a heinous crime against America. Anything which published the details of an invention before the issuance of a patent is an open invitation for every unscrupulous company in the world, foreign and domestic, to steal our technology.

Publications will be open to the possibility of outside -- it will open up the possibility of outside interferences in our own patent process. Meaning it will take even longer for patents to be issued and that will mean even more of the inventors time will be taken away. That's been the experience in other countries, and now some misguided people want to bring that system to the United States.

We've heard about submarine patents. The opponents of my bill, HR359, have based many of their arguments on this submarine patent issue, which is based on villainizing -- basically villainizing -- inventors. They claim that inventors are deliberately delaying the process, and that's the most important problem facing the patent system today.

Well, let me add that most of the inventors I know, and if you talk to inventors that you know, you will find that they have struggled desperately to have their patent issued as soon as possible so that they can start getting some of those royalties and getting some payment back for their work.

They have struggled diligently to do this, and they are in no way trying to delay their patents. That's the vast majority of all inventors because they're not rich guys. They're usually people who need that royalty money coming in and they realize with the speed of change in our society, if they don't get that patent issued, they will be left behind because something new will be invented that will take its place.

Such submarine patents may be a problem, but not nearly as calamitous as has been claimed. Bruce Layman testified, the head of our patent office, testified in August 1994 that he knew of only 627 submarine patents. As we've heard today, even if it's a small number, it's a problem.

Well my office found out from his office, and we've been making this request repeatedly, we just found out that fully 2/3 of the 627 so-called submarine patents were under government-imposed secrecy orders, which was no fault at all of the applicant.

The submarine patents are a problem, and let me admit that in many cases -- there are many cases of submarine patents where people are manipulating the system, and it is a problem. But I have repeatedly, repeatedly said I would be glad to accept into my legislation, which keeps the guaranteed patent term, anything that we can do to prevent those submarine patents.

In fact, there's been no attempt from what I can see to try to reform the patent office to get at the submarine patent issue. Instead it's being used basically as a cover to eliminate the guaranteed patent term.

Well we don't need to punish every American inventor to diminish -- and diminish the property rights of every American to solve the submarine patent issue.

HR1733 basically is like a character in "A Man for All Seasons," the play about Sir Thomas Moore. In order to get at the devil lurking in the woods, this character was willing to burn down the entire forest. We don't need to destroy our venerable patent system based on a guaranteed patent term just to deal with the submarine patent problem.

I urge the committee to restore the rights of American inventors by passing HR359, and not to make every U.S. inventor vulnerable by passing legislation that requires the publication of all of his or her ideas after 18 months of application whether or not that patent has been issued.

There are many other issues that we could get into, what I will do because I know there are other witnesses here to testify, but there are many people who can talk about -- and will testify -- that the 19 month average pendency that we've heard about is not, does not hold up under scrutiny. And that the Japan -- the deal we made with Japan, the two unelected officials made with each other -- in the Japanese officials and American officials -- was a major, a major catastrophe, and it was what we would call a "sweetheart deal" made between two people and the interests of the United States was left out.

And with that, Mr. Chairman, I would open up to questions and submit the rest of my statement for the record.

REP. MOORHEAD: Thank you. Professor Mark Linley, of the University of Texas School of Law, who will be testifying this morning did a study to evaluate the likely effects of the new 20 year patent term on U.S. patent holders. That's the only study that I know of that's been made concerning the comparison of the new system. To that end, he collected and analyzed data from over 2,000 recently issued patents.

From 197 litigious patents his study determined that overall patent users will benefit from the new 20 year term. On an average patent users can expect to gain around one year of additional term depending upon the assumptions made. The study indicates that submarine are a small, but not insignificant, percentage of the total patents issued, and that submarine patents suffered the brunt of the burden of the proposed new law.

This study was published last June. Have you have a chance to review the study, and if so what is your --

REP. ROHRBACHER: No, I haven't, Mr. Chairman. Could you tell me who paid for the study?

REP. MOORHEAD: The study was, came out just this last year. REP. ROHRBACHER: But, who was the -- what was the interest group that paid for --

REP. MOORHEAD: Professor Mark Linley.

REP. ROHRBACHER: But who paid -- perhaps when he comes up. Maybe it was done independently. Was there anybody who paid -- did anyone pay for the study?

MR. LEMLEY: No one paid for the study.

REP. ROHRBACHER: It was totally independent?

MR. LEMLEY: It was totally independent. The University of Texas pays my salary but --

REP. ROHRBACHER: All right. Well I will accept that, Mr. Chairman, but I do know that there are some very powerful interest groups that --

REP. MOORHEAD: Oh, come on, don't --

REP. ROHRBACHER: No, I'm not screwing with you. The bottom line is he said no one paid for his study, but you know and I know that we have been in hearing after hearing where there are individual professors that have done studies for special interests and I was trying to determine whether or not that was the case; this was not the case here.

If the professor found that the average patent will gain one year, Mr. Chairman, that -- all I have to say is that the average patent makes absolutely -- is totally irrelevant to the decision as to whether or not we will eliminate a guaranteed patent term for all American patents.

The average patent could be the stripe on the bottom on a toothpaste tube. What matters is the breakthrough technologies in which I have just shown you, the three major breakthrough technologies, that we have just shown you the chart on, would have received -- would have lost all of their patent protection.

These major patents take a longer time to get through the process, and they would lose handily, and there will be witnesses that will testify to that on our panel, who I'm afraid in terms of their people have just as good as credentials as our professor.

REP. MOORHEAD: I have a question that you might be interested in. You've criticized the provisions of HR1733 that would restore time lost of the patent office as not workable. What if the patent office published a list of deadlines,

where its response is the applicant's action, and then compensate the applicant any time it takes in excess of the deadline; an absolute guarantee. REP. ROHRABACHER: Okay. I have been open to discussing different -- in fact, I have pleading with different people in the industry -- and everybody knows that around town -- every time I give a speech on this I say let's come up with a compromise and try to find a way in which that 17 years of patent protection is absolutely guaranteed.

REP. MOORHEAD: But you didn't answer my question.

REP. ROHRABACHER: Right. I'll be open to talk about it, sure. But my main goal, my main goal is to make sure that those 17 years of patent protection are not taken away. Unfortunately, when you set up a complicated formula rather than by changing the system where it was a very simple, it was understandable, and enforceable 17 years, when you change that to a system that basically we're trying to organize a very complicated process that will result in 17 years in protection, the people who have most of the money for lawyers, the people who have money to influence the system basically have the edge. The poor independent inventor who is operating on his own is left out in the cold because he can't hire the legal representation needed to get through the system and that's the difference.

Although I'm open to any compromise that will guarantee 17 years.

REP. MOORHEAD: The Gentleman from California, Mr. Berman.

REP. BERMAN: The charts that you showed -- yeah, there it is -- is an interesting one, and I would be interested in hearing from the opponents of your proposal their response to those assertions.

REP. ROHRABACHER: These are just three examples. There are so many examples --

REP. BERMAN: I understand.

REP. ROHRABACHER: -- where people have invented things, where it's taken them -- where they've struggled to get through the system, and it's taken them eight to ten years.

REP. BERMAN: Let me ask you a couple of things. First of all, I'm -- I've only been on this subcommittee for about ten of the last twelve years so I don't know much about patents. I've managed to not specialize in that area, Mr. Boucher, Mr. Moorhead know a lot more. Tell me a few things here. When you file your application for a patent, can you start getting royalties for the use of your product?

REP. ROHRABACHER: It is an uncertain; that is uncertain.

REP. BERMAN: It's certain whether you are allowed to or not.

REP. ROHRABACHER: It may be possible, but most people will not respect patent pending -- most people will not invest in a technology, or respect a situation, until that patent has been issued because they realize that there are all kinds of people challenging; there may be another invention that the patent office has to -- it's a very uncertain situation.

REP. BERMAN: But to the extent --

REP. ROHRABACHER: I believe it is possible.

REP. BERMAN: It is possible, yes. And that would provide, I understand there are many complicating factors in all of this, let me ask you one other question. When a patent is issued, does it relate -- let's say, a patent is filed, another patent is filed by someone else on a similar kind of thing a year later, the patent issues on the first application, does that -- to the extent that the second one is found to essentially duplicate the first -- does that wipe out the second patent? In other words, if you're first in time in filing your application, does that --

REP. ROHRABACHER: It depends on who invented it first. I mean, we've got.

REP. BERMAN: It depends on who invented it first, not on who filed it first?

REP. ROHRABACHER: My, my -- by the way my bill goes to none of these issues.

REP. BERMAN: No. No. I'm trying to understand, you've talked and it's true what concerned me this GATT effort, this implementation legislation which you're trying to change, rewards not the best inventors but the people who can gimmick this system the best. Get their patents issued relatively early because by going from a guaranteed term to a period of time after the application is filed, are the ones that can get that issuance earlier will get a greater period of exclusivity of return.

REP. ROHRABACHER: Well, I'm just saying that the system by taking it from a time certain of 17 years and making it the 20 years of uncertain time, and making the clock start ticking is what you've done is you've complicated the process so much that for people who lack the means to have legal representation, you basically put them at the mercy of number one, an ineffective bureaucracy, and number two, -- if the bureaucracy is ineffective.

And number two, outside interests that may want to manipulate the system. Especially if you have an 18 month publication which permits outside interests to know exactly what you're up to and then they can plot a strategy of interferences, which is common place in Japan.

What we've done is basically by making this change, we have conformed our process to that in Japan. Now there is a reason why in Japan they don't come up with new innovations because people are beaten down by the system there.

And their system is designed in a way that permits that.

REP. BERMAN: Let me ask my question.

REP. ROHRABACHER: Yeah. Sure.

REP. BERMAN: I'm trying to understand if there's -- you're spinning out tales of un-torrid influences and agendas that are anti- American in a certain sense because their not allowing the protection of invention, and of American technology and all of that. I'm trying to understand is there some economic motivation why people would want to play around with when their patent was issued so that they can increase the time in which they have the exclusive rights for compensation, keep prices higher, keep consumer's from getting -- more people getting the access more quickly; I'm just wondering is there a countervailing argument here.

REP. ROHRABACHER: Yes, there is. And it's the submarine patent argument, which I believe that there is an honest disagreement between myself and the Chairman on the relative importance of that as compared to the loss of rights that will take place by changing the fundamentals of our patent system.

There is a profit motive today, or at least under the old system, to basically try and string out your patent thing if you believe that your innovation and your new technology will be so in use after 10 years, or 15 years, that that 17 year period would be more profitable to have your patent in effect. And that is what the submarine patent is all about.

That is true in some cases. I'm certainly willing to work with anybody in this body to try, and I have pleaded with the industry, to say let's come up with a compromise. We can reform the patent process; we can reform the way the system works in the patent office to prevent people from doing that.

But to take away the patent certainty, what we've done is open up a whole new can of worms that basically what we'll see -- what I would -- billions of dollars worth of royalties that should be staying here in American pockets, will instead, or are going to American pockets from Japanese and foreign bank accounts, that will no longer be the case because there term will be shrunk.

It will take an extra five or ten years to get through the process.

REP. BERMAN: My time has expired. Let me just finish with a rhetorical observation in my response, although I would like to hear critics of your bill address the issue of those kinds of inventions. I'm just wondering the extent to which one interpretation of what I see up there is that the laser, the microprocessor, some other things, because there was no particular necessarily motivation under the old law were kept out of the hands of American industry and American people because they could -- 27 years to issuance, 20 years to issuance, 17 years to issuance, how much quicker might we have had the laser or the microprocessor had this post-gas system been in place rather than --

REP. ROHRABACHER: I understand. I think that's a very good question and I will say this that we have a rapidly changing scene in the field of technology. And before I knew people who were struggling to get their patents issued as soon as possible, even when the rate of technological change was much slower than it is today, today when we have a rate of technological change that is so rapid many of the problems of the submarine patents of the past no longer apply because inventors are deathly afraid that if they delay the issuance of their patent at all, they will be left behind totally. In fact, who cares if their patent is 17 years if something comes up five years from now that is more effective. So they want to get that patent issued right away.

REP. BERMAN: I know we're running out of time and got all these witnesses.

REP. MOORHEAD: Thank you. The Gentleman from North Carolina, Mr. Coble.

REP. COBLE: Thank you, Mr. Chairman. Dana good to have you with us. This matter has generated a lot of interest on this hill and I guess around the country. Let me go back with you a ways. On June the 13th of this year on the House floor, it was either the one minute or special order, you said that the 20 year term was "snuck into the implementation legislation, even though it was not required by GATT treaty."

REP. ROHRABACHER: That's correct.

REP. COBLE: Now there are two parts to this statement. Let me dig into this. First, the matter about it being snuck into -- snuck into the implementation legislation. The 20 year term, as you probably know, was an issue being discussed in the GATT negotiations as far back, I think, as 1988.

REP. ROHRABACHER: That's not correct.

REP. COBLE: But I think that is correct. Let me finish, then I'll be glad to hear from you. I'm confident that is correct. We can disagree or agree about that subsequently. It seems to me that it was neither controversial nor new.

Now you testified, Dana, at a joint hearing of the Senate -- Mr. Chairman, I think in this very room, I'm not sure about that -- but in any event before this subcommittee on August the 12th, 1994 on the language contained in S2368, which was the language that was subsequently adopted three months later by the House on November 29th with a vote of 288 to 146; almost a 2/3 majority. And it passed the Senate with a vote of 76 to 24 on December 1, 1994.

Now on that very day that I mentioned previously, June 13, 1995, you went on to say that you were, "denied the right to even see the language until shortly before November 29, 1994." Now, Dana, did you not in fact testify on that language three months earlier.

REP. ROHRBACHER: That's correct.

REP. COBLE: So you were not --

REP. ROHRBACHER: That does not mean that that was going to be included in the bill. We were making requests of the administration as to whether or not this would be included in the bill we were refused to see, my office was refused our request to see a copy of what this implementing legislation was going to be like. This could -- or would not have been in this bill, this was a decision made at the last minute whether or not this would be in the bill. In fact, the President went so far as to cut a deal with Senator Dole saying well, we'll leave it in the bill but if Congress acts on it, we will agree we won't oppose what Congress goes -- this could have been taken out of the bill at any moment. We were not informed by it.

REP. COBLE: Well, just leave it alone, Dana.

REP. ROHRBACHER: Just answer your first point. I have a letter from Clayton Yigger, I will submit for the record, stating that this was not an issue of negotiation when he was head negotiator.

REP. COBLE: Well, as to whether you were denied the right to even see the language, that may be subject to interpretation, but I don't believe Dana you were denied that right because you addressed it when you appeared before us.

Let me go to the second letter. Second part of the statement is that the 20 year minimum was not required for GATT. A change in our patent form was in fact required by GATT. To comply with GATT as best I recall we had to provide a 20 year minimum from filing. We could however had gone further and provided a 17 year from issuance, whichever might have been longer, but we did not do that.

Now, I think, Dana, to say that no change was -- no change was required, I don't believe that's correct.

REP. ROHRBACHER: As per my conversation with the people who are negotiating for us, Mr. Clayton Yigger and before the current administration, I would just say that the language was written specifically to permit the United States to adopt a policy that would not require us to change the fundamental patent law. That's why it was written. To say that at the very least we have to offer a minimum guarantee of 20 years from filing.

It didn't say you have to have that as your standard. Otherwise it would have been written in a totally different way. We were not required by that legislation -- and as it was purposely negotiated to give us this option. And I know it's easy to interpret the other way, but clearly things -- there's a purpose behind those wordings that give us, America, that lead way.

In other words, we could have passed GATT and been part of the GATT process without changing our fundamental patent law, and that was intentional on the part of our negotiators.

REP. COBLE: Well, not unlike the Gentleman from California, Mr. Berman, my time is rapidly elapsing. Let me touch on one more thing Dana. Again, on your June 13, 1995 appearance, you said, "every technological breakthrough which has changed the lives of mankind that have been based on patents issued to Americans have taken years and years, sometimes more than a decade, sometimes more than 15 years to issue." I'm not - strike that -- I started to say I'm not sure I agree with you; I am sure I don't agree with you. But we can talk about that at a later time, but I'd be glad to hear from you on that.

REP. ROHRBACHER: All I'll say is that if not every invention, every breakthrough invention; it's not every one. The vast majority that I have seen, and I will be very happy to have a list of -- that my opponents will come up with, see this only took two years to get through and this is a breakthrough technology and we'll have our list. But the fact is the list is so long on one side where it takes longer than three years to get through, that it is clear that there is a substantial loss of patent protection for major breakthrough technologies, like changing the basic patent law.

We have basically lived with the same patent law for 134 years, and we take it for granted that America is the most innovative country in the world. We say, oh well, that's part of our culture. You can't change the fundamental law and expect that America is going to remain the innovative country that it was. We have changed the basic rules for this. We have conformed to Japan. We have harmonized to Japan. This is going to change the way things work in the United States of America, and for people who think that it's not, we can watch ten years from now and see what happens.

It's not just coincidence that Americans are the most innovative people, and we've come up with all of these good inventions. It's because we had that type of a patent system. Now, unless I am successful, unless we turn this tide back, we will not have that same patent protection, and we will not be the same America.

REP. COBLE: We'll continue this, Dana. I'm sure, Mr. Chairman, my time has expired. I thank the Chairman.

REP. MOORHEAD: Thank you. The Gentleman from Virginia.

REP. BOUCHER: Thank you very much, Mr. Chairman. Dana, welcome today, and thank you for sharing your views with us on this subject of genuine interest to this subcommittee.

Let me just get the benefit of your ideas with regards to a couple of approaches that we might be able to take that potentially would address the problem that you have raised.

Would there be any benefit, in your opinion, if we went to a first-to-file system. Today patents are calculated based on who invented first. And the person who is the first inventor is entitled to acquire the intellectual property interest.

Suppose we decided to do what the rest of the world does and take that to a first-to-file system.

REP. ROHRABACHER: I'd have to take a look at it. It's not something I feel strongly about right now. I'd have to study the issue.

REP. BOUCHER: So you don't really have a firm view as to how that would effect --

REP. ROHRABACHER: I might after I studied the issue, but I just haven't studied that particular issue enough to give you any answer.

REP. BOUCHER: In Chairman Moorhead's bill there is a requirement that the patent application be published after 18 months following their filing. It is argued, as I understand it, by the proponents of that that by having that information made public at that time there would be an expansion of the prior art database to the benefit of many parties, and that would also be a potentially an effective way to prevent surprise and preclude the conduct of the submarine patent --

REP. ROHRABACHER: You'd be surprised --

REP. BOUCHER: Do you have any views with regard to that?

REP. ROHRABACHER: Sure. The people who will be surprised will be the inventors when they see people all over the world who have every little bit of information they have about their own creative endeavors. Now it's in the possession of people who are their economic adversaries, and didn't -- whole new industry created if this 1733 passes as it is now.

You will have an industry of -- all these lawyers are out of work in Washington now. They'll be hired on by all these companies all over the world to go to the patent office, pick up the publication, and FAX it to the various companies in Indonesia and Thailand, China and Japan. And that will be a great industry. I mean, they will make a lot of money doing it, and any new ideas that start springing up in the United States will be subject up to grand theft. It will be our debtors that will be surprised.

REP. BOUCHER: So your concern, stated in a sentence is that if we went to an 18 month publication rule that would simply encourage pirating of American innovations. Is that what --

REP. ROHRABACHER: I do not understand how anyone can take a look at the idea of publishing an application for a patent, disclosing all of the information about innovation and technological ideas that are being developed by the United States, I don't see how anyone in their right mind, basically, and I'm sorry to be so blunt about it, can think that people will not turn around and use that information for their economic benefit against us.

REP. BOUCHER: Well, let me explore that with you just a little bit. In the United States, if the information is pirated and put into practice and the technology is produced by someone than the inventor, under our current law even with the absence of the issuance of a patent, the person to invent would have the intellectual property interest and would therefore have a cause of action against anyone who expropriated what was his.

REP. ROHRABACHER: That's right. That's right in this country --

REP. BOUCHER: So the 18 month publication rule in regard to this country should not be problematic, do you agree with that?

REP. ROHRABACHER: I would think it would be problematic, but it would be -- if someone had enough money to enforce his rights by hiring the right kind of legal counsel, well then that person can probably secure his rights because he or she has the money necessary to do it. But what if the independent inventor doesn't have the money to do it? Overseas it's a disaster.

REP. BOUCHER: That's the bigger problem that you would foresee is the fact that people overseas would take American Innovation based on the 18 month publication and then put that technology into the market.

REP. ROHRABACHER: They'd run with it.

REP. BOUCHER: Okay. Let me ask you one additional question and I'm going to yield to my friend from California who has some follow ups. When you were answering Mr. Berman's question concerning the submarine patent holder, the person who sort of purposefully delays for a period of time having his patent issued so that he could claim the benefits of the intellectual property interest many years down the road after the technology has been put into practice by

others, you have indicated an interest in taking steps then perhaps having provisions inserted in either your bill or Mr. Moorhead's or some combination of those two. That would prevent that practice from recurring. Did I correctly interpret your comments?

REP. ROHRABACHER: I have no desire to protect people who are engaged in what is called submarine patent manipulation. I just -- that is not the purpose of my bill. I have since day one begged people to come up with compromises with changes in the way the patent office functions, for example, to try to confront this issue. I have received no responsible offers in terms of types of reform that we could make other than simply saying, no we're just going to eliminate everybody patent rights to a guaranteed 17 years of patent protection. That'll solve the problem. And so forgot about reforming this system.

I am open to any reforms that we can take place over here at the patent office and their procedures that will prevent the kind of abuse we're talking about. In America, we're not supposed to punish the people who are innocent by eliminating their guaranteed patent protection in order to get to the guilty by people who are manipulating the system. Let's change the system and reform it. I'm open to that. I'm anxious to get on with that job.

REP. BOUCHER: Well, I want to thank you for that offer. I think that at the core of all of our concerns is the abhorrent practice of the submarine intellectual property owners surfacing well down the road, and we all want to make sure that doesn't happen. And your offer to work with us as we seek to address that is most welcome indeed.

I'll be glad to yield to the gentleman from California:

REP. BERMAN: One question, in all your comments, I'm a little confused. Do only foreigners steal American inventions? REP. ROHRABACHER: No, in fact --

REP. BERMAN: Do Americans ever steal it? Why is this always the foreigners are going to take our technology rather than an inventor who did something who's losing his right to get --

REP. ROHRABACHER: I will have to admit that it upsets me a lot more when a foreign company steals technology that was invented in the United States then when an American company tries to take advantage of situation and because

--

REP. BERMAN: One is stealing, one is taking advantage of? Do they have longer sentences for foreigners?

REP. ROHRABACHER: It's stealing in both cases, but in one case we have a legal avenue to protect ourselves. When we open this up, when we publish this to the world about all these new ideas that we're trying to develop, many of our people are going to have absolutely no legal avenue to protect themselves against a company over in Thailand or in China or in Japan. They just won't have the resources or the legal avenue to do it. So with an American company -- I mean here's a guy who invented the windshield wiper, the intermittent windshield wiper, went to the major automobile companies, they said poo poo; and a few years later they stole it; and then they got it. There was a legal case. It took them a long time for this man to get his due, and he got his due. While overseas, that man trying to bring some overseas company to the point where they would have to pay him would be difficult.

REP. BERMAN: The whole purpose of Gat was to make -- get meaningful remedies against foreign interests to get protection for intellectual property abroad so that there would be remedies against foreigners. The whole trade off in all of this was to get some meaningful kind of protection abroad.

REP. ROHRABACHER: We've increased the level of protection, but if you're going to sit back and fly on that, and if we're going to make all of our people vulnerable based on agreements made by some of these countries and some of -- many of them are dictatorships, the bottom line is: We're going to see our technology ripped off as never before. As I say, it's an open invitation to the thieves of the world to grab America's ideas and use them for their own benefit.

REP. BOUCHER: Will the gentleman yield?

REP. BERMAN: I'll be glad to yield to my Virginia colleague.

REP. BOUCHER: I thank the gentleman for yielding. I'd like to follow up on the gentleman from California's point as well. Every other major industrialized country in the world follows this procedure of publishing --

REP. ROHRABACHER: There's only two other areas, Japan and Western Europe.

MR. BOUCHER: Western Europe is a pretty major area.

REP. ROHRABACHER: But it is not every country on the world.

MR. BOUCHER: I think Western Europe probably contains most of the other major industrial countries of the world. Follow this. Now, if their inventors, their companies, their individual inventors are being ripped off, left and right, by this system by all of the other foreign countries, if you will, why haven't they abandoned that process?

REP. ROHRABACHER: Because in other countries, they do not consider the rights of individual the way we do in United States of America. That's why we have most of the -- that's why most of the innovation happens in the United States of America. You look at what the Europeans have come up with and what the Japanese have come up with in these last 30 or 40 years, and you'll find American's are leading the way by a long-shot. It's not a close race even. It's not even close.

REP. BERMAN: Reclaiming my time -- the gentleman from Virginia's time. The fact of the matter is that while we certainly are a leader in innovative technology and inventions, and we certainly want to protect that, it seems to me that there are far other reasons for that than this difference in our patent laws. The German's, the French, the British, the Japanese have come up with a wide variety of areas of innovative technology and to me to suggest that it isn't our tax system, our productivity of our workers, other elements of the attraction to this country --

REP. ROHRABACHER: You're stretching it.

REP. BERMAN: -- of people from other parts of the world. That's the reason why we are a leader in this field. And to point to this simple difference between publication is --

REP. ROHRABACHER: Well, it's not a simple difference in publication. We're talking about publication, and we're talking about a guaranteed term versus an uncertain term. I will say the chair was asking about today is a fundamental -

REP. : May I ask the gentleman from Virginia to yield for a moment?

REP. BOUCHER: Mr. Chairman, let me do this if I may. Perhaps I could yield back my time and you can recognize each of these gentleman on their own.

REP. : Could I ask for just one moment? I just want to -- perhaps the reason that -- the real reason we have in your view been immensely more innovative and creative in terms of these technologies is that we actually have been because of the publication rules of these other countries stealing their technologies in advance, and that's why we've gotten the leg up. Would you care to comment on that?

REP. ROHRABACHER: I must say that I don't make light of this issue, and that question is making light of the issue.

REP. : It isn't really making light of the issue.

REP. ROHRABACHER: Give me an example of where we stole technology from overseas.

REP. : It really takes your argument and --

REP. ROHRABACHER: Can you give me an example of what you're talking about.

REP. : It really takes the concern that you've got and puts the shoe on the other foot. If that's the case, then that is presumably what American manufacturers have been --

REP. ROHRABACHER: I will answer your question. Right now, it seems to me that my colleagues who I respect dearly are bending over backwards to find some other explanation for America's greatness other than our fundamental law. The fact is that the Constitution of the United States includes patent protection. It is in our Constitution. This is something our founding fathers understood. Our founding fathers understood that technology and freedom would grant the average American a life much better than anyone else had ever dreamed in the world. Today we are changing the fundamental law dealing with technological innovation.

If we were dealing with other rights, the rights of speech or religion, you would not be -- there would be no questions making light of -- well maybe America's character was developed because we have such protection of speech and religion. There would be none of that. Because no one is going to harmonize the rights of speech and religion and assembly and other constitutional rights with those of another country, thus diminishing the rights of Americans. What we have here is a fundamental law that has protected our citizens, our creative citizens' right to property, the property they've invented; and we're trying to change it. That will change the essence of America's position in the world.

REP. : Let me say to the gentleman that you and I share one thing in common and that is we want to have a good sound strong patent system that protects U.S. inventors. I admire your efforts to make sure that somebody who is creative and inventive does get a period of time in which to reap the benefit of that. It's a system of reward. We give them a monopoly for a period of time in which to recover something their cost and their time and so on. I'm concerned, however, on the other side that we also not have a system that can be gamed in such a way that you can reap benefits for a far longer period of time.

Everyone in this room as bought many many products that on the product says patent pending on it. Many of the products that take a period of time to have a patent issues are sold during that time. Either by the inventor of the product or to another company for royalties.

So when you have -- I can't speak to any of the particulars of these. Although, I do know Phillips Petroleum, the first one you cite there, is a supporters of Chairman Moorhead's legislation, H.R. 1733. But each one of these, they're all quite old in the 50s and 60s, but each one of them or others could be situations in which individuals reaped more than 17 years. Far more. Maybe 27 years plus 17 in the case of Poly Propylene. That has the effect of slowing down innovative technology, and it has the effect possibly, depending on one's point of view, of going too far in terms of creating a monopoly and rewarding an inventor for too long a period of time. So I'm concerned about that aspect of the current system and of your legislation.

REP. ROHRABACHER: If there are abuses in the system, if someone's abusing someone else's rights -- if free speech is being abused in this country, the last thing we do is change the essence of laws protecting freedom of speech. What you do is you look at the abuses of freedom of speech. What we have done here now is instead taken a certain right,

which is a certain patent right that Americans have had for 134 years, and made it an uncertain right because it has to go through the bureaucracy and the processes and lawyers are involved etc. and some people have less and some people have more depending on how they can --

REP. : It's uncertain right now, however, because if you're out to stretch out the process. You don't know how long you're doing to succeed in stretching it out.

REP. ROHRABACHER: If you were right now trying to stretch out the process, I am in favor of making the reforms that are necessary to prevent that. But you do not have to change and alter and diminish the fundamental rights of 17 years of guaranteed protection to do that. There's been no attempt, no attempt at all. By the way, the inventors aren't the only ones affected. If I could make one small short point. We're also talking about the investors. It takes a lot of money sometimes for people to develop these technologies. This investors that we have, have always known that they have 17 years to reap their reward from the investment that they've made. You're not only affecting the inventor when you eliminate that certain term of 17 years, you're telling the investors you may or may not have 17 years or beyond; and there's no amount of government subsidy for R and D that's going to make up for making the patent term uncertain.

REP. : But when somebody invests in one of these things the want one thing they want to know right away is how quickly you're going to get that product to market because that's where they are going to get their reward. So that is where they can identify how quickly they're going to get to market and how long a period of time after it gets to market relative to when the patent is filed that they will be able to reap some reward.

Let me say another thing about Chairman Moorhead's bill that answers many of the concerns that you've addressed, that actually exist in current law. And that is that during this patent pending time there is not full protection. You can get a cease and desist order, for example, but you cannot under current law sue for royalties. The chairman says that after that 18 month publication date, you will then be able to sue for royalties, giving you an added protection in this country, elsewhere in the world that you do not have under current law. I think --

REP. ROHRABACHER: Under the provisional patent right that are being offered that in the end the claim must be based on a patent that is identical, a claim that is identical to the final patent. Now, what we're talking about with patent pending -- people goes through these changes. I don't think a lot of people understand. When you file for a patent, you go through many different changes and the patent office actually requires you at times to change your patent application for them to pass on it at that stage. These things take six, seven, eight, nine years at times because the patent office itself is trying to do a good job; and they're trying to do their best job. This isn't even bureaucratic inertia. This might be conscientious decision making on the part of the bureaucracy.

So if you end up with a change in your patent law or your patent from that time, and somebody else is using that original information, but it's not identical to the one that's is sued, then you don't have that patent protection, as Mr. Moorhead has suggested.

REP. : Well, let me also suggest that patent pending has additional power to it. You know that if you're looking at going in and competing and that patent does issue a few months later or a few years later, then you're facing much more serious consequences for having infringed the patent; but I think he does enhance that by giving that an additional protection that allows you to sue --

REP. ROHRABACHER: If you have the money.

REP. : -- under your patent pending --

REP. ROHRABACHER: If you have the money to sue and to protect yourself, that's fine with domestic companies. With foreign companies, it's almost inconsequential compared to the benefits that they're going to get by having the total details of technological ideas that you have been developing.

REP. : Will the gentleman yield for just a minutes?

REP. : Sure, absolutely.

REP. : Just on that question, Dana, you suggested that your major problem with the 18 month publication is that that would spread the information around the world. Companies in other countries would pirate the technology and use it. But in those other countries, the patent right extends from filing, and the first to file gets the right. So why couldn't the U.S. inventor at that time or just prior to the time that he is required to publish in the U.S. at 18 months simply file his patent application internationally and get guaranteed type of protection in all of those countries?

REP. ROHRABACHER: I'm not sure how long that process would take. Again I'm not an expert on the first to file option. I will look at it and ask advise from people who understand that. It might be a very expensive proposition to file in another country, and maybe some inventor might not have that or -- so I'm just not certain of that answer.

REP. : Let's take a look at that because I think we're going to here from the proponents of 18 month publication, that that is the answer that simply filing around the world gives you the guaranteed first right of intellectual first property protection.

REP. ROHRABACHER: I'd have to take a look at it. Again I'm not -- I haven't studied that international law. REP. : The gentleman makes a good point. The chairman's already pointed out that the vast majority of inventors do that right

now to assure -- and under the current set of circumstances, because they have to publish it in Japanese or whatever other language, it then surfaces at 18 months in a foreign country. I'm not certain somebody who has a language advantage --

REP. ROHRABACHER: How much does it cost to file a patent in Japan, for example? I'm not sure what the costs are that are entailed. If we basically are saying to our own American citizens that you have got to incur the extra expense of filing in other countries at the same time before you'll get the protection afforded you as an American, I'd have to see how much it would cost; and also, I don't necessarily feel comfortable about basically insuring our own protection by making sure someone has filed in foreign nations. We have 14 percent of all inventors today file their patents in Japan. There's has to be some reason for that.

REP. : I well exceeded my time, Mr. Chairman.

REP. MOORHEAD: The Gentleman from Ohio.

REP. HOKE: Thank you, Mr. Moorhead. I wanted -- actually the questions that I had really follow what the observation of Mr. Boucher had and some of the earlier comments of Mr. Goodlatte. I think rather than ask a question, I just want to make one observation to recap it; and that is that I think what we're really -- the concern that you have regarding the change in the patent law is a very narrow set of factual circumstances that go to the case of the individual inventor or corporate inventor in the United States what chooses only to file his publication or patent application in the United States because once -- if a person, if an individual inventor in the United States makes the decision to file internationally, then by law those applications outside of the United States will in almost every circumstance be published and not only be published but be published, in fact, in the native language of the particular country.

REP. ROHRABACHER: That is correct.

REP. HOKE: And so I think it's important for us to remember as we think about this change and these two different pieces of legislation that we're talking a about a very narrow --

REP. ROHRABACHER: It's a question if I could answer it.

REP. HOKE: That we're talking about a specific set of facts that go to the case of the American corporation or inventor choosing only to file the patent application for protection in the United States and not to seek protection for their invention abroad.

REP. ROHRABACHER: If I could answer that. There are only two other areas that have really what we're talking about patent law that is applicable here. We're talking about Japan, and we're talking about Western Europe. By changing -- by basically harmonizing our law with that of Japan, what we are doing then is eliminating the one safe haven left for the creative individual. If one thing that we prided ourselves on because we will be exactly like Japan and the reason why, the reason why --

REP. HOKE: Reclaiming my time. I would really like to get to the rest of testimony. I suspect that they're going to speak to that issue specifically. Thank you, Mr. Chairman.

REP. MOORHEAD: I want to thank the gentleman from California, Mr. Rorhabacher for his testimony. I ask unanimous consent for the following letters to be a part of the record following Mr. Rorhabacher's testimony. A letter dates July 24, 1995 from the White House Conference on Small Business. Signed by the nine chairman of the Technology and Innovation Section indicated that the technology and innovation section of the conference was overwhelmingly not supporting H.R. 359. Mr. Kurt Brenner, Editor of the New York Times, and Secretary Brown and Mr. Rorhabacher dated July 16, 1995 (inaudible) that the administration knew that this was a problem with H.R. 359. I would also like to point out that these are major -- undoubtedly if they wanted protection overseas, they would file both in European patent offices and Japan they both be published --

REP. ROHRABACHER: I'm uncertain of that.

REP. MOORHEAD: It would be. As far as the time limit is concerned, I don't know why each one took so long, but I do know that it was at no fault of their own. This is the (inaudible) place under the new legislation they would end up with 31 years. That's a ten- year extension -- one year provided provisionally of the 20 years. So you got 31 years.

REP. ROHRABACHER: If the patent office is responsible, and if everything works as it should --

REP. MOORHEAD: I have to check into it to find out why they take so many years.

REP. ROHRABACHER: Mr. Chairman, these are only three examples. There are many many others examples. You'll hear witnesses later on tonight in this hearing who will describe many other inventions that took many -- much longer than the three or four years we're being told it takes to issue a patent.

REP. MOORHEAD: There's one more question that someone wanted me to ask. On June 26 of this year on the House floor the following changes of (inaudible). In the long run (inaudible) the facts are that it will be another four years before we go patent (inaudible) issuing less than 17 years, and if that's the case, the subcommittee has 16 years to correct such a problem. You have any facts or statistics or data of any kind to support your statement?

REP. ROHRABACHER: Because we're not just talking about royalties. We're also talking about money that is dedicated and invested by people who are investing the research and development. Although, your challenge is correct in the sense that it will not affect the inventor for another couple years directly, but it will affect people who are inventing -- inventors of current technology. The process of developing new technology with R and D is already being affected by this change. When you have people who are being asked to invest in the development of new technology, they are no longer at this moment, they are not being given the same guarantees that they were given two years ago. Two years ago they could say, well you would have a guaranteed 17 years to make your money back no matter how long it takes to get through the process. Those investors now have a totally different proposal being given to them. So it's already affecting investment in the United States and after about a year or two we'll see that and be able to calculate it.

REP. MOORHEAD: Well, thank you very much, again. I appreciate, Dana, your coming. I want to say that I left this part of the discussion wide open as far as time because I wanted you to have all the time you possibly needed.

REP. ROHRABACHER: Mr. Moorhead, I appreciate your --

REP. MOORHEAD: -- the first panel basically supporting my bill. The people on the panel will be limited to five minutes. Those supporting Mr. Rorhabacher's bill, they're going to get six minutes.

REP. ROHRABACHER: Mr. Chairman, I thank you very much. I appreciate the debate we've had over the last year. I appreciate your job as chairman. It's a rough job. When you got passionate members like me, it's even more difficult. Thank you, Mr. Chairman.

REP. MOORHEAD: Our first witness on the next panel will be James L. Fergason, an inventor and president and founder of Optical Shields Incorporated located in Mineral Parks California. Mr. Fergason holds over 100 U.S. patents, including liquid crystal display, the LCD that has licensed Moorhead than 40 domestic and international companies. Over 5 million LCD units that produce watches, calculators, and medical equipment to name a few products. Over 100 jobs are attributable, produced, sold (inaudible). It's a pleasure to have you here, Mr. Fergason.

MR. FERGSON: Thank you.

REP. MOORHEAD: Our next witness is Professor Mark Lemley, from the University of the Texas School of Law where he teaches intellectual property secure law. He is the author of two (inaudible) books and numerous articles on the related subjects. (inaudible) importance to these hearings, Mr. Lemley authored an article which comparatively evaluated the benefits of 17 year (inaudible). He received his bachelor degree from Stanford University and his law degree from (inaudible) University of California at Berkley.

Our next witness is Richard Butler, an inventor and vice president of the patented technology at Illinois School Works. His work experience includes being an aerospace engineer at the (inaudible) for NASA, the patent examiner of the U.S. Tax and Trademark Office and a patent attorney. Welcome, Mr. Butler.

Our next witness is Mr. Bill Buttenger, who is also an inventor and the CEO and founder of Rodel Incorporated, a small business in Delaware which manufactures products used by the teleconductor industry for manufacturing of integrative systems. He owns more than 3 dozen patents. He is a founding board member of the Delaware Innovation Fund and (inaudible). Welcome, Mr. Buttenger

Our next witness is Mr. Edward Stevens, the general counsel, secretary and vice president of Apple Computers, Incorporated. He heads the Apple legal practice. Mr. Stevens is involved in some of the most sound breaking technology issues facing the computer industry today, including protection of intellectual property and licensing. Welcome, Mr. Stevens.

Our next witness is Mr. Roger L. Mae, who is assistant general counsel for intellectual property for Ford Motor Company. (Inaudible). was in private practice. He was examiner at the U.S. Patent and Trademark Office. He is a member of the Technology Committee of the Center of Public Resources of the Michigan patent law association.

Our last witness on the today's first panel is Mr. Steven H. Farmer, an inventor and CEO of Integrated Services Incorporated (inaudible). He served as the delegate for the 1995 White House Conference on Small Business and is involved in several trade organizations. He's responsible for over seeing the developmental relations, business transactions, general operations of ISI. Welcome, Mr. Farmer.

We have your written statements. I ask unanimous consent to be made a permanent part of the record. I ask that each of you summarize your statements in five minutes or less. I ask that the subcommittee hold their questions until all of the witnesses have finished their speech. We will begin with Mr. Fergason.

MR. FERGSON: Thank you. I'm pleased to talk today about -- I'm an (inaudible) inventor. I presently have 23 U.S. pending applications. I have four patent cooperation treaty applications with U.S. designations. I have three European patent convention applications in 27 other foreign filings.

I am here to speak about the importance of publication and term measure from the date of filing. I believe that both of these are very important, particularly, the publication. Patents are -- I regard as is social contract if which we are out there to start new businesses and build new technology. I believe that with publication we are able to more accurately

assess the need for our investment and whether somebody is going to come out of the woodwork and disrupt our investment. I think that 18 months is maybe a little bit too long. Ideally, I would like to see a patent system where you filed it in the morning, got the patent issued at noon and published at night.

I think that patents are --I have to go to Japan for information now and pay for translations. I pay for my own patents and therefore it's very costly for me to do that. By knowing what's coming and knowing what's going to happen, I can know how to spend my money, which patents to emphasize and also I have never observed publication as being a problem. I regularly file PCP patents which are published in 18 months. I've been ripped off but it's never been rip off in terms of the 18 month publication. Thank you very much.

REP. MOORHEAD: Thank you. Mr. Lemley.

MR. LEMLEY: Mr. Chairman, honorable members of the subcommittee, good morning. Representative Rorhabacher has been raised significant concerns about the effect that the new 20 year term will have on patentees in this country. Last fall I commissioned a study which, as far as I know, is the only comprehensive detailed study of the actual effect of the 20-year term on American patentees. The study was submitted to this committee in June and subcommittee for publication. It will be published this month in the American Intellectual Property Law Association quarterly journal. You have a copy attached to my testimony.

I want to highlight briefly just five major findings of this study because I think they are important to this debate. First, the average patent owner wins under the new 20-year term. They gain, rather than lose protection. Under the most realistic set of assumptions, they gain an average of 426 days or 14 months of protection over the 17-year term. Even under the most pessimistic assumptions, they gain 253 days or 8.5 months.

Second, it's not just the average patent owner who gains. The vast majority of patent owners win under the new law. Under the most realistic set of assumptions in my study, 87.1 percent of patent owners in the United States gain term under the 20-year term. Even under the most pessimistic assumptions, 76.8 percent, over three quarters, gained time. This is not on balance hurting American inventors.

Third, only a tiny percentage of patent owners in this country risk significant losses. Losses of two or more years of protection under the new term. Under the realistic assumptions in my study, only 2.2 percent of patent owners would lose two or more years of protection. Even under the most pessimistic assumptions, only 5.3 percent of all American patent owners would lose 2 or more years. I might note there that even those numbers do not take into account the various term extension provisions that have been enacted into the new law to protect against things like delay due to interference, delay due to appeal and they do not take into account H.R. 1733 and the proposed additional provisional protection that Chairman Moorhead has offered. In fact, therefore the numbers I would expect would be significantly less, even in these small percentage of people who lose under the new law.

Fourth, nearly half of the patents that lose a significant amount of protection, 48 percent of them. The cause of delay was the applicant him or herself abandoning and refileing the application in the patent office three or more times during the course of prosecution. These are not delays that are inherent in the patent process. These are not delays that are the fault of the Patent and Trademark Office. These are delays that the patent owner or applicant can do something about. Can shorten or reduce the total delay.

Finally, there is no evidence that I have seen that suggests as Representative Rorhabacher did, that the most important patents are the ones that take longer in the Patent and Trademark Office. It's not possible to study that question directly because there's no measure any where of what the most important patents are. But I did study the litigated patents. The patents that people care enough about actually to take to court to enforce. What I discovered is that there's no difference between the litigated patents that are actually enforced. That are held valid by the courts, and those that are found to be invalid. They take on average almost exactly the same amount of time. Indeed, some valid litigated patents that were of sufficient importance to invest the money in enforcing against infringers issued from the patent office in as little as eight months. So what little evidence we can find suggests that it is simply not true that all break through inventions or all important patents spend a significant amount of time before the Patent and Trademark Office.

I think that this data suggests that the need or H.R. 359 is not nearly as great as has been suggested by some individuals. I hope that's of use to the committee.

REP. MOORHEAD: Mr. Stead.

MR. STEAD: Thank you, Mr. Chairman and members of subcommittee. I am here on behalf of the Apple Computer. I think you'll recognize the creator of technology and we're located in California, Cooper county California. I'm also here on behalf of Informs Technology Industry Counsel which is head quartered here in Washington. ITI members represent the leading providers of information technology products and services worldwide revenues in excess of \$300 billion in 1994 and more than 1 million employees in the United States. Our members are consistently at the very top of the list of all companies receiving U.S. patents.

In the information age, in which knowledge is the point of the realm, the U.S. information technology industry is the world leader. This is because we create the intellectual property that provides the added value that is most in demand. From patent system, on the corner stones of protection of intellectual property.

We're here today to support H.R. 1733, your bill Mr. Chairman, and to express our obligation to H.R. 359. The Moorhead bill improves the patent system by providing additional protection for inventors, including individual inventors against delays in the patent office. The Moorhead bill is a step forward. In an industry in which advances in technology occur at every increasing speed, H.R. 359 would create significant uncertainties which would impede our members ability to compete in a global economy. H.R. 359 is a big step backward.

I'd like the deal with some of the issues that were raised earlier by the committee. One had to do with the constitutionality of the current law. The Constitution provides that the Congress will decide how to protect an inventor. The Constitution does not say you get 17 years or you get 20 years. That's up to the Congress. That's what we're here to talk about today. I think that the 17 years --a lot of emphasis has been put on the 17 years certainty versus 20 years of uncertainty. To me the only certainty is in the 20 year term. The 17-year term is the uncertain term.

We had a specific example in Apple recently where an application was originally filed in 1965. The patent went through five successive series of cancellations and refiling. A patent was ultimately issued in 1993. No one knew what the patent was for that 35 years. We knew what the invention was for that 35 years. I'm not sure if the inventor knew what the invention was for that 35 years, but in any event when the patent finally issued, it was asserted against Apple Computer. It was asserted against all of our computers which we had been producing, developing, designing, and marketing for some period of time. The cost us substantial amount of money to defend against that claim.

That's the problem that we'd like to see dealt with in the 20- year term which will provide certainty. The 17-year term in our judgment does not do that. In a global economy, I think it is ridiculous to think that you can hide an invention. (inaudible) We're dealing with a system, a global system which inventions are disclosed after 18 months. Let's get them out there. Let's get to work and start producing.

Recording the delay issue, I think where delays is caused by the patent office the Gat provisions in the Moorhead bill would allow for extension. If inventors knew they were operating under a new system, they may well have acted to speed up the processing of their claim, rather than to delay it. I think in a global economy, we need to be set up. Delay is not going to help us. I think the number ask something like 45 percent of the patents that are granted today in the United States are foreign applications. So to think that we're protecting anyone is beyond my imagination.

Regarding small inventors that were supposedly try to protect, small inventor in the case I cited happens to live in Nevada where he doesn't pay any taxes, and he spends a lot of time skiing. His lawyer, who, I guess he can afford, is among the highest paid lawyers in the country. So, I don't think money's an object here. I think we're dealing with a real abuse of the system under the old system, and I don't see how anything other than a Moorhead bill would deal with the abuse in the system. I have seen no effort, in spite of efforts on our part, to try and make any accommodations to deal with this abuse in the system.

I think the Moorhead bill does it, and I think we ought to get on with it. As far as the this chart that was put up, I think a number of the examples that were on the chart were deliberate delays on the part of the inventors and deliberate delays shouldn't be compensated. Where there's been delays by interference procedures, that's taken care of in the current legislation. Few situations may have been caused by the patent office where the patent office caused delays. Those can be directly dealt with under the Moorhead bill. So I don't see the problem here.

I think in your opening comments, Mr. Chairman, you dealt with the improvement that you bill put forth on Gat, and I don't see any need to go into that. Just to kind of nit it out, I think that the -- I think it's important that we have some certainty in this system. I think we have with the new Gat legislation. I think we have more certainty than we had before. I think that the improvement offered by the Moorhead bill provide additional certainty and accommodation where it's needed. I would urge the committee to support the Moorhead bill. REP. MOORHEAD: Thank you. Very unfortunately, we have a vote on the floor. The rule on this Partial (inaudible) Abortion Act. I'll get back to as fast as I can. I hope that many of our panelists will opt to come back as soon as they can, and we'll get started again. Thank you.

REP. MOORHEAD : The meeting will come to order again. There's so many things going on, and this debate on the Floor has a lot of interest. Our ranking member is very much involved in that, or we would have more people here today. But you can see through some of the questions that were asked and everything, that there's a lot of interest for the members of the subcommittee. And I'm sure that all of the testimony is in written form, and they're all pretty well acquainted with what the issues are.

MR. : Mr. Chairman, I am a founder and a CEO of a small business in Portland, Oregon, where a software manufacturer that was established in 1988. In 1993 we were able to place 25th on the INC 500 list of fastest growing privately held companies. We have been privileged to obtain a leadership position and a niche market. And we have as major customers Texaco, Pennzoil, Jiffy Lube, (Avco ?), Shell of Canada, Castro and others. And while our business growth

and software manufacturing capabilities drive me to have a keen interest in the intellectual property area and the protection afforded us, I also sit here having been a delegate to the 1995 White House Conference of small businesses. I believe that conference delegates came away with both a clear understanding and consensus of the fact that we are now part of a global economy. This world economy doesn't just impact small business it provides opportunities for small business. I believe the United States right now is at a crossroads. We can either choose to live and act as we always have or recognize we're in this global economy and seize the opportunities being presented to us.

HR 359 has been introduced specifically to override and refill some gap provisions. While I believe its intentions are well-founded, I would urge you to consider whether the old protections that used to be effective will continue to be as effective in the changing environment. On the other hand, I believe 1733 addresses the concerns about the term life of patents by providing for extensions whenever a delay takes place in the process.

We are a small business in a software industry. While patents are a tool we use, the software industry also relies heavily on the other forms intellectual property protection. If 359 were passed into law, some of us in the software industry are concerned it would signal a retreat on the part of the United States. It would signal that the US believes we are not subject to some of the international accords which have been agreed to by many other jurisdictions. I am afraid 359 would perpetuate a methodology that is no longer in the best interest for the United States to pursue. Let me give you an example of how I fear 359's adoption might impact our company in Oregon. I'll use trademark issues by way of analogy. (Inaudible) -- has installations in every state of the US, every province of Canada, Costa Rica, Mexico, soon Australia, South America, and Europe. Today when (Inaudible) -- files for trademark protection in the United States, it receives no reciprocal benefit from many of the participating countries which were part of (Inaudible) -- Round Agreement.

But if Madrid protocol currently under consideration is signed, then ISI would have that reciprocal protection with all of those participating countries. This will be a very valuable tool for a small company such as ours. We cannot afford to prosecute trademark applications in every country, we're just too small.

The same would be true with patents. If 359 became law, my company would face the same burden. In the international marketplace we need certainty. In the patent process, and I believe we defined certainty differently than congress Rohrabacher did earlier. Today with increasing use of the Internet, our world has become as small as a local telephone call.

Our business relies on technological improvements and advancements in order to remain competitive in this world economy, and certainly we will use the Internet to compete in this global economy. At the White House Conference we thoroughly discussed how to protect intellectual property rights of US businesses. There was initial discussion by some who argued we should adopt the stand similar to HR 359, but in the end the group felt that 359 was a step backward and contrary to the role the conference wanted the United States to play. Therefore the technology section specifically omitted any reference that would tie us to a position similar to 359.

I have fought the conference delegates for taking an aggressive and forward thinking role. I sit here as one of them urging you to do likewise when considering the provisions of these bills. As a lawyer I have an additional concern if 359 were to become law. Because the debate has become so public, lawyers who are properly representing clients in the patent process will now urge them to work to delay as long as possible.

I believe this is legally proper and even ethically mandated, but I don't believe this fosters competitiveness in this global environment. Rather, it encourages just the opposite, monopolistic tendencies. Historically American businesses have thrived under a free market economy. The United States should do all it can to enhance this historical strength of small business by encouraging competitiveness in a global economy on a level playing field. 359 ignores this point of view, and I believe ultimately it would damage the US small business as we try to lead the world in innovation and aggressive adoption of technological breakthroughs. We support our efforts to lead. We will succeed more readily if you leave us free from the old burdens which were not designed for the new global economic landscape. Our major trading partners have been able to agree among themselves that a 20 year term measured from the time of filing is materially acceptable in the world today.

Yes, that is different from the 17 year patent term from date of issue that the US has lived with. But it will work fine and allow us to meet and compete on a level global playing field. Therefore, I stand before this morning in support of 1733, and thank you, Mr. Chairman, for giving me the opportunity to testify this morning.

REP. MOORHEAD : Mr. Rines(?).

MR. RINES (?) : Thank you, Mr. Chairman. I'm here today representing Ford Motor Company, and I'd like to express Ford's support for HR 1733 and our concern regarding problems raised by HR 359. Ford is a technology driven company with more than 17 thousand scientists and engineers in the US alone. Our success is based to a very great extent on our ability to design, engineer, and build new or improved products based on new technologies which are responsive to our customer's demands.

Our ability to do this will be enhanced clearly by a stable predictable patent system. To argue that 1733 built upon the stability and predictability provided by the recent patent term changes while HR 359 just as surely destroys this predictability and stability. We particularly favor the 18 month publication and provisional rights in 1733. Clearly scientific advancement which is a primary purpose for the patent system is promoted by publication of patent applications at 18 months, because scientists and engineers are then given the opportunity to study technology and to move quickly to assess the state of the art. This will reduce wasteful duplication of research and development funds. It also encourages improvements at a much more rapid pace. And early publication reduces the cost of patent litigation because it's possible to study these patents, identify problems, possibly avoid litigation by licensing or making design changes which themselves could result in improvements, a purpose of the patent system. Finally and perhaps most importantly, I think this provision levels the playing field. It will provide American innovators the opportunity to view the inventions in English in their own country, just as the Japanese and others have been able to our inventions. And I might point out that under this law the inventions which come from overseas, for example, from Japan or Europe, would be published six months after they arrived in the United States. It's significant because 45 percent of the patents issued in this are issuing to foreign inventors.

Ford is unequivocally opposed to HR 359 and any other legislation that might come along to roll the US patent system back to one with a term being measured from the date the patent is granted. We believe this would create an unstable and unpredictable termination of patent rights arising from a single application similar to what existed prior to June 8, 1995. This poses significant business risk to technology and capital intensive companies because there's no way at any time to predict whether patent infringement allegations will be made against newly developed products and processes. The public interest is served only if certainty and predictability are features of the patent system. The patent term measured from the date the patent is granted will afford attorneys and applicants alike an opportunity to manipulate the system. This has gone on in the past. These manipulations have led to the issuance of multiple patents covering variations on a theme on the same invention or exaggerated delays in the ultimate issue of a single patent. These types of patents have been kind of grouped together as submarine patents and there's a little bit of confusion. It was mentioned earlier that the inventors are incentivized under the 359. Certainly to get their patents out as soon as possible and that they shouldn't want to delay.

Well, the fact is that many people get many patents out from a single application. They just keep chaining them along and keep them pending so that they can continue to craft claims as they see fit to cover technologies that have been developed by others.

So we've seen situations, and, in fact, Ford has been victimized in litigation in this area where applicants -- an applicant has chained patent applications together, issued multiple patents and continued to craft new claims and contend that technology developed by others was really theirs and accordingly is seeking tribute.

This infringement expense is becoming the vein of American industry, and patent infringement defense bills in excess of a million dollars are quite commonplace. Patent term, we believe, has to be measured from the date of filing to avoid the kinds of abuse that were permitted under the old law and to which the Rohrabacher bill intends to return.

It is -- it is clear that the patent system should not tolerate an applicant failing to claim his invention within a reasonable period of time. The constitution was referenced earlier, and it's clear that Article 1, Section 8 refers to the fact that a patentee should get protection for a limited period of time, not forever, not for 40 or 60 years.

The public has a right to know what the applicant considers to be his or her invention. Otherwise anyone trying to do business will be left to either litigate or cave in when threatened by patents issued years after the commercial development of the technology. And so we favor 1733 because we think it represents a forward step in the development of US -- the US patent system and is an integral part of the international community and I think this is very important while maintaining that stability of predictability needed by American enterprise of every stripe. Thank you.

REP. MOORHEAD : Thank you very much. I'm terribly sorry this -- we're in about the last six minutes of the vote and I have to leave to get over for a -- I will try to make it back if I can.

(Recess)

REP. MOORHEAD : I wanted to get back to you both. We're looking forward to hearing you (Inaudible) --

MR. : Thank you, Mr. Chairman. I'm here representing the National Association of Manufacturers and through my company, owned by (Inaudible) -- I'm trying to give a perspective on how this issue relates to the NAM and to our company. We refer to our company as ITW, not to be confused with ITT or IBM or any other initial company.

We are a very low visibility diversified manufacturer on many parts and components for a huge variety of markets and industry. We operate through 280 different businesses and 28 different cities. We serve automotive industry, construction, electro-mechanical electronics, food and beverage through products that range from art welding to plastic and metal fasteners, six pack holders, industrial packaging, glue for household and industrial uses, and a variety of others.

What is germane to this hearing today is that all of our products either are or have been protected by patent. We are an active user of the patent system in a positive manner, and we feel that ultimately the legislation 359 would harm our company and companies like it, and 1733 is the appropriate measure.

Today ITW holds over 15 hundred US patent files, an average of a 150 US patent applications annually. It's interesting to note that I would estimate that our average pendency from filing to issue is 24 months. Each of our individual 280 businesses have engineers and technicians who work very closely with customers to solve their problems. These individual units and their inventors are our most prolific inventors and patent applicants. These are the people who create products who create businesses. In fact, most many of our business units were spun out of a previous business unit as a result of a new product that has patent section. We build businesses around businesses and products. Let me give you an example of a success story of one of our small businesses and an example of how it could not have been a success story if someone chose to manipulate the system in a manner promoted or proposed by 359. One of our operations makes capacitors. It's a small element necessary in all electric circuits, probably no bigger than a thumb nail. ITW (Pectron ?) in Lynchburg, Virginia, was a major producer of capacitors. However, during the mid 70s the US capacitor business was dying. It was becoming very inefficient, no new products and falling prey to the cost advantages of Ford competition.

We were on the verge of either selling or closing that business. However, one of our more creative individuals in 1981 tried to save the business by an invention that improved the process of making capacitors. It turned out to be not only a cost saving for (Pectron ?), but a capacitor that gave industries a capacity to make components and to build circuits not knowing (Inaudible) --

We were willing to promote this and to invest in this technology because of our knowledge that -- that the patent system would protect us, that we had done our research, that no one had invented it before us, and that we were not infringing on others' patent. Therefore, we were aware of the huge investments in a new product development and were willing to take that risk.

We carefully searched both the US and the foreign patent offices and found nothing that we felt would prevent us from doing this, and we continued to have those searches during the early days of the development. Our first patent application issued in about 36 months. We think this -- this seemingly insignificant development is in many ways a break through invention.

We continue to invest in this technology and filed 12 or more patent applications on it. (Pectron ?) is now making money. New technology is now recognized by several industries as a major improvement, and more interestingly, to this agenda is that suppliers to us have created new product that serve our new technology. Likewise, our capacitor permits users to create new products. This is the way the system works when used in a value added manner.

The product development is not easy. There's a lot of downfall, and it's very expensive. Product development to commercialization of a product now, which is our objective, is forced to be very rapid. And in our company and companies like our company require certainty as to preexisting facts and certainty as to prior art. We aren't arrogant enough to think that our solution at that time is the only solution. There are other ways to do things. We prefer to have a solution that is proprietary so that when we invest in this material is protected by the patent system.

Let's look at this process and see what might have happened if -- if -- if 359 were in existence or if the patent laws prior to GATT were in existence. We would have spent perhaps ten years agonizing and spending a lot of money trying to convince the world that our capacitor and our process was sufficient. It's not easy to convince people of new things. We were successful after about five or six years. However, if the process as proposed and promoted and suggested by 359 were in existence, it is possible that somebody who legitimately invented something similar to ours before we invented it and before we commercialized it could have issued a patent with claim that may cover our process and procedure.

It is those claims that would stop us and would put us at a severe disadvantage. It would put our operation at Lynchburg at a severe disadvantage. We would be held hostage after we spent time, money, and development costs. And the system would have failed us.

We think that the provision of the 1733 gives back the issue of the progress of science as recited in the constitution, give a definite term. We think also that -- that in many respects, the way we operate and the way we do business, our inventors are the creative energy for our economy.

We are involved with the real people, real communities, and real businesses. The way we do business in a small entrepreneurial style of operation, we rely upon our wits, we rely upon new product development, and rely upon the patent system to protect us in these global fast moving product development areas.

Thank you very much, Mr. Chairman. REP. MOORHEAD : Mr. Buckman?

MR. BUCKMAN : Thank you, Mr. Chairman, I'm delighted to be here. I come not only on behalf of my company, which is a small company, I come as an independent inventor, which I am, and also as a technology chair for the White

House conference on small business. The -- what I'd like to do if I may, is depart from my written testimony. That, basically, states the position of the technology delegates for the White House conference on small business. And instead I'd like to talk about a couple issues that were raised here today.

First of all, we do not agree with Congressman Rohrabacher dismal prognosis for the future of America. If we continue with the reforms that were put in place with the act. Quite the contrary, we think that's good for America and good for small inventors, and I'd like to explain a little bit about why.

First of all, in regard to publishing applications, at first glance it would seem absolutely crazy to publish applications and allow everybody else in the world to read what we're going to be patenting, but the simple -- and that assumes that American applications are all secret now. And that simply is not true. The fact is that 45 percent of American patents are issued to foreign companies. They are foreign, they are American counterparts of foreign patents. So they are all -- that 45 percent is already public (Inaudible) -- Another 30 percent of American patents brings the total to 75, is -- are issued to multinational corporations, and they're very few multinational corporations who file patents only in the United States.

So we can safely say that probably almost all of that 30 percent (Inaudible) -- in addition, companies like mine, who count in the small business category, we file all our patents abroad. So something more than 75 percent of American patent applications are already being published abroad. The difference is that information is available to our foreign competitors, and it's not available to us unless we have the money to go abroad and search and translate. And that small business doesn't have. And so from that standpoint, the standpoint of publication, and knowing what's downstream 1733 is extremely important and beneficial to small companies and some inventors.

There's nothing more heart breaking than to see a small inventor sink his life saving into a technology or small company only to find out that someone else has a patent, and it got there first. When the patents are -- when the applications are published at 18 months it will solve that problem. We in America will then have the same advantage that our foreign competitors now have about American patent applications. And that's the point we would like to make there. The vast majority of American patent applications are not secret, they are already published usually in a foreign language.

The second thing I'd like to talk about is that the issue of term. The word uncertainty has come up a lot. We like 1733 because it provides certainty, it provides that we will have 18 1/2 years to collect royalties. No matter how long it takes the patent to issue. Now 1733 also continues with the reform in GATT in that the patents will expire 20 years after filing date. That's critically important to us.

When a patent continues on after filing date -- I'm sorry, when a patent in the United States continues on longer than its counterparts in foreign countries, most patents around the world expire in 20 years, when patents in the US continue longer than that, it freezes technology in the United States. The whole point of a patent is to allow the patent to exclude competition. When you exclude competition, when you freeze technology only in the United States, it means the rest of the world is free to advance and we're stuck. It means our factories can't buy the instrumentation that our Japanese competitors can buy because the patents are still valid in the United States.

I've heard some stuff today about, gee, they're not allowed to submarine patents, and we shouldn't have to worry about that. The fact is that before the law changed on June 8, two years before the law changed on June 8, foreign companies received three hundred patents, and I have them here and their available, received 300 patents that are important. All of those patents appear to have been deliberately delayed in the examination process. They will all expire in the United States 5- to 25 years after they expire in their home countries, which means these patents, these 300 patents which are important will freeze American technology only in America.

They'll be free to advance in all of our competitive countries. That's something that we in a small business community really don't want to see. We want to see all patents expire at about the same time. In other words, the level of playing field.

And finally, I heard -- I wrote down a quote, "Inventors struggle diligently to get their patents issued as quickly as possible." I'd like to comment on that as an inventor, I would throw myself on the sword here, I am a submarine inventor. But simple fact is -- is before the law changed, I worked hard to delay my patent. I filed all the responses at the last possible moment, and when it was possible to make something a little less clear than it might have needed to be I did that. And the reason is because patent pending really did matter, it really does make a huge difference. And the period of protection begins when we file that application, and we can stand patent pending. I got -- licensed my first patents before they were patents, while they were still applications. I licensed them to a large cooperation, WR (Grace ?). They paid made me up front money and royalties on applications.

So from our standpoint, the application is as valuable as the patent until the time that you actually have to sue somebody for infringement. And as Congressman Rohrabacher pointed out, that takes an awful lot of money, and that's pretty tough for small businesses to do anyway. So for us, that patent application is a very important thing, and that's when our protection starts.

We -- the longer we can delay that under the old law, the better it is for us, the longer our monopoly. My royalties at (Grace ?) ended, and they just ended a couple of years ago, 22 years after they started because I was able to delay my patent. We have, in my company, we have a break through technology going on right now that will dramatically effect semiconductor production. At least we hope so. It will make semiconductor production cheaper so the companies who don't use our technology will be at a competitive disadvantage. And I'm aware there are good customers in this room, and it's kind of a dangerous thing to say.

If HR 359 passes, frankly, we're a little bit ambivalent because we have filed that patent application as one big application. If 359 passes, we will be able to string out the many inventions that are going to be pulled out of that application for years and maybe decades, in fact we're a lot smarter about it now that we used to be so we ought to be able to do it for a lot longer. And we can control that aspect of semiconductor manufacturer for a lot longer than 20 years. That's tremendously good for me. It's good for my company at least in a selfish way. It's not good for America, and we don't think it's good for small business in general.

So that's our direct experience. Frankly, we deeply believe that 1733 is an excellent step in the right direction. Gives us 18 1/2 years of what amounts to guaranteed protection, and that should be enough. Thank you.

REP. MOORHEAD : You know, I had a couple questions along this line I wanted to ask. In 1733 would anyone that is concerned they aren't going to get their patent, and they know usually by 18 months, this is a real problem. They can withdraw and I have no publication. And I think that those that are concerned about that publication that can answer all patents are published when their issued.

If you were worried about (Inaudible) -- once you get the patent anyway they're going to have the formula, you've got to have the tool to enforce the formula. That's what we get with working with the patent people in other countries. Some of the enforcement agencies to make sure that our patent are protected in that country. I know some of the (Inaudible) -- countries don't do a very good job, but we're at least moving forward in that area. We need that enforcement for our people in our path. The second thing is, there is publication and someone violates your patent comes back and collects under 1733.

So there's protections that are built to protect you for that very purpose. So that protection of archives, not only in the United States but around the world no area, they were selling millions of copies of the Lion King all over China and all over Asia before it was released in the United States made every effort to get greater cooperation with Chinese Government and I noticed we've have been (Inaudible) -- lately that (Inaudible) -- making some progress. But that's what we need if we're going to really be a world power, and continue to be the leader.

If we want to enforce innovation in our people and come up with we have to have an appointment. So I had just had to make that comment along with what you said. There has been some confusion as to where the White House conference stands on these bills and as an active delegate investor would you explain the position of the conference to (Inaudible) -- MR. : Thank you. There is confusion on that. First of all, the conference -- the White House conference was a big thing and before it (Inaudible) -- went on for a year and a half and then the final convention was in Washington. When we came to Washington, we had all been given 460 some resolutions, which we diligently read and studied and we're going to decide in Washington which ones to vote on. We pretty much made up our minds on the way in. At the convention resolution 115 had some words added to it which supported a return to the 17 year term and asked the applications not be published.

I voted for 150 even though I'm very opposed to those provisions because I didn't know those provisions were in there, and I think that's true for a lot of the delegates. The only place where this was discussed at the White House Conference was in the technology and information section. And there as Steve Barram said, we got pretty thoroughly discussed, and a number of people brought up the issue of HR 359, in particular, and it was overwhelming -- we overwhelmingly voted not to support HR 359. So, if I may, if you want to technically, yes, that's resolution 115 hangs out there. If you really want to know the (inaudible) -- of the delegates, it would be better to talk to -- and I think the delegates the chairs of that delegation have made a couple trips to Washington to express to members of congress that that resolution 115 does not capture, in fact, contradicts what their sense was.

REP. : (Inaudible) -- still motion support for HR 359.

MR. : Well, I think there's -- I think there's a couple reasons. There's some people, like me in a way, who would like to their patent go on forever, the ability to have a patent for a long time. I think, however, an awful lot of it comes from the misinformation that is out there.

If I may, this is a magazine, Inventor's Digest which is highly respected and highly regarded in the small inventors community. It is really the voice of the small inventor, and I'll just read you a couple things that are printed. It says, for example, huge foreign corporations will pocket tens of billions of dollars they would have paid to Americans. Inventors read that and they believe what they read in this their magazine. That's frightening.

If I believe that, I'd have worries. It also says that the patent office -- patent office and others continue their assault on the two hundred year old system the Japanese may as well take our constitution and hang it in a trophy case in Tokyo. The America -- alliance for American innovation has put out a letter to small inventors. My company has had two phone calls from people representing themselves as a -- representing American -- or the alliance for American innovation. And the staff -- my staff people took the call and said we got to support 359 this is a terrible thing that is about to happen to us. Because what they heard would have made anybody want to support 359.

One of the things that's in a letter that they put out is that it obviously -- the American alliance says since it takes the PTO on average of eight to nine years to process and grant a patent, it is imperative that break through patent have a useful life of 17 years not 11 or 12 years, as would be the case if the patent term begins the date of filing. If that were true, I might have a very different point of the view about this legislation. And I think that an awful lot of the small inventor community really has heard only that side of the issue.

REP. MOORHOUSE : Thank you. We were told earlier in earlier testimony that suddenly that issue being used to cover those that simply want a weaker patent system. That they would spend big money, multinational corporations, more than they do the creative end of it. Would you comment on that?

MR. : Well, Mr. Chairman, the excited apples experience during my testimony, our experience has been that the longer individual inventors can keep patent secrets, the longer someone else can develop a technology and implement the technology. And he can spring that -- he or she can spring that invention on them after having made successive changes to their original application so that it reads closer to a technology that is actually being implemented than it might have originally. And then you're in a situation where you got to defend -- pay a lot of money to defend and often times it's cheaper to settle than it is to defend because of the expense of defending. It needs --

MR. : You're in a situation where you've got to defend, and pay a lot of money to defend, and oftentimes it's cheaper to settle than it is to defend because of the expense of defending. These so-called small inventors operate with contingency lawyers, contingency fee lawyers, and they're often the ones that help them gain the system if you will. So it's a very definite abuse, and an unacceptable way for us to expect us to do business in a globally - competitive era.

REP. MOORHEAD: Mr. May, what is the issue of the pending litigation between Ford Motor Company and the inventor to (inaudible).

MR. MAY: Mr. Representative, in two words the issue is undue delay, but let me expand on that a little bit. Mr. Lemmelson, I think it's quite widely known, sued Ford Motor Company and we've been in litigation since 1992.

He filed a patent application in 1954, then proceeded over the following years to file a number of continuing applications, and in the process issued a number of patents all stemming from that first 1954 application claiming priority to overcome prior art of others.

In 1963 he issued his first patent; In 1969 he issued another one. They expired in 1980 and 1986, respectively. He then continued to file the continuation application. He was issued many many patents. One of which I have in mind right now issued in 1994, forty years after the original application was filed will expire in the year 2011; 57 years after the application was filed and 31 years after the first patent granted to him on that application expired.

A particular interest is his contention -- and by the way, everyone, including the US Congress, the local Awl-Mart store and the US Patent and Trademark Office infringe his bar code reading patches, or what he contends are bar code reading patches. Ford, like a lot of industries, in the early '80s relied on technology, which I would call bookshelf technology, purchased from companies it had spent millions and millions of dollars developing such as simple technologies. Simple technologies developed bar code readers. We use those in our manufacturing operations. We put that in place.

Mr. Lemmelson read about it, has a lot of articles about it, and in 1989, thirty five years after he filed his patent application, he for the first time decided that he had invented bar code reading. After it was in place everywhere, and he filed claims. Then he filed some in '90,'91, and '92. These patents are being asserted against Ford.

And what happens is if he's successful in this there's a tax against every American based on an invention which was really made and developed by someone else. But for which patents are granted because it's so difficult to ferret out the kinds of abuses that we're talking about here.

Fortunately, in June of this year, the magistrate judge handling this litigation recommended to the district court judge that these patents be held unenforceable for undue delay in prosecution, and we're now awaiting a ruling by the judge in Las Vegas.

REP. MOORHEAD: Mr. Linley, what prompted you to undertake your (inaudible) study of the 20 year filing for patent term. Were you influenced by any outside groups, or was that just an independent study.

MR. LEMLEY: Mr. Representative, the study is an independent study. I suppose you might say that I was prompted in part by a desire for tenure at the University of Texas. But I don't believe the University of Texas has any direct, or indirect, interest in the outcome of this study.

One of the things that I noticed when I was looking at this information at the time that the GATT bill was pending before Congress was the (inaudible) of real data one way or the other on what the new term would actually do. The only sources of data that I could find were the data provided by the patent and trademark office, which were defective because they measured only current application time.

They didn't measure the entire length of time of patents spent before the patent office including continuation applications, divisional, etc. And the patent office said there were 18 months on average between the time you filed an application and the time the patent issues.

Then there was a claim made by a New York law firm that I believe REP. Rohrabacher has alluded to in his article that the average length of time that it takes a patent to get through the patent office is 6.6 years, and that was based on 30 patents that this law firm allegedly picked at random out of the official gazette.

There's a big difference between 18 months and 6.6 years, and it occurred to me that somebody ought to figure out what the real answer was. So I did a study which I think overcomes the flaws that may exist with the PTO data, it measures the entire length time that a patent spends before the patent office.

From the first day, the first application is filed, to the day that it issues because that's the length of time that's relevant under the 20 year term. And, what I discovered is that while the average term -- average time that something spends before the patent office is greater than 18 months, it's an awful lot less than 6.6 years; it's around 24, 25 months.

REP. MOORHEAD: According to your study, an overwhelming majority of patents -- patent applicants will receive a significant amount of traditional patent terms under the 20 year (inaudible). You testified that it will reduce the intentional delay and unintentional delay. Do you believe that such changes make the US impact the envy of the rest of the world?

MR. LINLEY: I do -- I wanted to note one thing. REP. Rohrabacher said that the reason that the United States has such a technological edge over the rest of the world is because we've had this strong patent system, and in particular because we've had a 17 year minimum term of protection. And I just don't think that that's accurate.

I think the reason that the United States has a technological edge over the rest of the world is because of our inventors, because of our people, our research universities, our corporations, and what it is that these people do.

Obviously, we need a patent system in order to encourage innovation, in order to pay for research and development costs, but there's simply no indication that we've got to have a 17 year term or all of the inventiveness that has always characterized America will suddenly dry up and wither away.

REP. MOORHEAD: I have a couple of questions that I'd like brief comments from each member of the panel. In earlier testimony we were told that 18 month publication is like hanging a huge neon sign out in front of the patent office which displays "steal our technology." Is that a valid criticism of the 18 month publication?

MR. : Absolutely not. I have never heard of anything that really gets sold by keeping it a secret. And the real purpose of -- most of us when we do inventions is to sell something. Tom Peters, a noted author, has said that the best way to get your ideas accepted is get out and talk to people about them.

So, I think secrecy is highly overrated, at least in my experience with building companies. I think one of things I rely on is recognizing the fact that I have to run, not walk, to develop companies, or to develop a new product, or whatever. I think that -- actually resent that kind of implication that I'm going to be some way emasculated by having to publish my patents, which I always have in the past, the important ones, at least, I filed on a foreign venue. So, I just don't believe that I'm going to be apt to suffer for that.

MR. LINLEY: It seems a rather astonishing suggestion to me that if you want to start a new business, to invest in research and development, that the thing that you're going to do is look to applications that have been published and that you would expect within the next year to issue as a patent.

This seems to me precisely the sort of thing you would not want to do. If I am going to invest my money in a company, I'm going to invest my money in a company that has its own technology, or at the least that can use public domain technology.

This patent publication is a signal to the world that somebody has a claim on this invention, and if anything, I would expect that it would cause imitators to shy away from using those inventions.

MR. : Mr. Representative? It seems to me that the purpose of an invention is to build something, and the faster the better in a global economy. And if you want to keep it secret, you can't build it. So I don't know what purpose secrecy serves at all.

MR. : Mr. Representative, you yourself pointed out that when a patent issues, of course, it's published. We should read the -- the 18 month publication always in conjunction with the provisional rights, I believe, too. The fact is that by publishing at 18 months or whatever period of time amounts if there's a special request, the applicant from that day on is protected and when they obtain their dominant patent they not only could shut down the competitor who might be

moving in to try to take market as has been suggested with injunctive relief. But there also -- they can also sue for damages and receive a reasonable royalty back to the date of publication.

REP. MOORHEAD: (INAUDIBLE) that we've heard so much talk about that (inaudible) once you get the patent, which would be a few months later probably, they can still get it because its been published and if you can't force your patent in their country, you're not going to have any.

MR. : That's correct. That's why harmonization is an overriding important element.

MR. : It might actually work the other way around. An awful lot of invention occurs because of the stimulus in technology and so you find even looking back at Edison and Bell, they spent a lot of their time in court with other people who were claiming to have invented the same thing at about the same time. So inventions tend to come in clusters like that. And right now if the patent application is secret, other inventors who have separately invented the technology might invest a great deal of money and become committed competitors by the time the patent comes out. So then they have got to fight in order to stay alive.

With publication there is the possibility that that potentially committed competitor learns that he's going to have, or that his technology has already got a claim on it, and he goes and does something else instead. So it may actually do just the opposite of what Congressman Rohrabacher suggests.

MR. : Mr. Representative, there's also one other point that Congressman Rohrabacher brought up this morning with respect to investors. Given -- another take on that viewpoint maybe is a better way to phrase that, investors with venture capital funds are also looking for certainty. He refers to certainty as the 17 year term. However, I think another way of looking at it would be from an investor's point of view is an 18 month window is a much narrower term of certainty at which their investment may be at risk, and it may now be very able to say that it's a much less degree of risk for a short period of time as well.

REP. MOORHEAD: The other question I had is are the bilateral agreements made with Japan to change their patents and the certain changes in our patents worthwhile. Would the three of you want to answer that yes?

MR. : I've been dealing with Japan and their patent system for over 20 years now, and I can tell you that the Japanese patent system has improved an enormous amount. It still has a ways to go, but I at one time before publication you could be caught up in the Japanese patent office for 19 or 20 years before, and the patent would not issue until the term of the patent was done.

With their publication and with some of the changes they have made in terms of their -- they also have a practice which one claim and the claim was read if you had dependent claims, claims were read to limit the scope of the independent claim. That changed a lot of that.

Now you can get independent claims; you can do a number of things. There are other people in the room that can probably answer that question on a technical basis better than I, but I can say from my direct experience that those agreements are helping us an enormous amount.

That we are getting many things from the Japanese that we need. There is a ways to go, and it will be a great day when we can file a patent between the two of us that can be filed in our language in Japan and actually be accepted. So, I would say that those agreements are very important. MR. : Mr. Representative, as a company that's seeking to increase its market share in Japan, and I can tell you that we are very interested in being able to work effectively with the Japanese patent system; and it's no secret that in the past it was extremely difficult to obtain Japanese patents, to get them examined, to get them through the office. And I believe that it's imperative that we move in the direction of harmonization, and we have taken some first steps toward getting the Japanese patent office to be more reasonable in their approach, to exam the applications in a reasonable period of time.

I think it's very important for all of us if we want to operate in a global economy.

MR. : Just say one more thing here. I've had oppositions, and my experience is not nearly as great as somebody like Ford Motor Company or something like that; I've had oppositions filed against my patents in Japan lately, and the results have been very, very good -- very favorable.

It's been -- earlier on I had a case -- I invented the method of aligning liquid crystal displays, that made it possible, that they're 100 percent being used now. I didn't get the patent in Japan because I used cotton as an example an exemplary material, and they made me -- even an appeal -- wouldn't allow me to use cloth as the operative word in the claim. It had to be the exemplary material. It was done purposely, I believe.

Chair, lately I had a case that had 18 oppositions and we got it granted with less trouble than we had in Europe, or less opponents, for that same case. So my experience would say that things are improving a lot.

REP. MOORHEAD: The REP. has been patiently waiting, and I'm sorry I've taken so long. You're recognized.

REP.: Thank you very much, Mr. Representative. No apologies needed; you were asking very pertinent questions, and in fact, have covered a number of the ones that I intended to ask.

Let me return, if I may, to the concern that was expressed by Mr. Rohrabacher with regard to 18 month publication. My recollection of his principal objection to that is -- was not so much with reference to the potential that the innovation

might be pirated here in the United States, but with regard to the difficulty that the inventor would face in terms of protecting his property interests abroad. And he suggested that the filing might lead to the incentive created by people in other countries to take that innovation and utilize the technology there without compensating the inventor here.

What really is the answer to that? I would assume that filing the patent application simultaneously abroad with the publication here in the United States would be one effective approach. When I ask him about that he said, well, that's very expensive. We don't know what it would cost, but perhaps the expense would place that beyond the ability of a lot of inventors here in the US to accomplish. Do you have any general comments about how the protection could be assured with regard use of that technology abroad? Address if you would the question of expense. Mr. Ferguson.
MR. FERGASON: I believe that the BCT, Bank Cooperation Treaty, offers a very good way to at least buy you some time abroad, get yourself a good basis in fact. We've discussed using the conditional, and have used the conditional -- as I say I have four patents in BCT -- patents being filed with US designations which means that we essentially file the foreign patent first.

I think this can be done with good effect, and I must say that it has been my experience that it has been easier to collect royalties from Japanese companies than it is US companies in general.

REP.: Any other comments concerning that? Anything directed specifically at the cost of filing abroad.

MR. : Unfortunately, I do think that if you do want to protect your inventions in foreign countries, you must file patent applications in those foreign countries. Just as we file applications worldwide.

The publication of the patent in the US is not the critical thing. If we make a product, it's fair game to be copied any place that patents don't exist. So I think it is unquestionably a cost factor, but that's the way the game is played unfortunately.

REP.: Well let me just ask for some practical information. What does it cost to file a patent application in Japan and in a typical country in western Europe? Anybody know? Mr. Ferguson.

MR. FERGASON: Yes. If you file worldwide, we did our study on ours, and this does not include the -- in terms of the European convention countries -- but just filing the EPC by itself, our number is about 250,000 for all of them. For the US, Japan, and several of the Pacific rim countries that really count.

REP.: That would strike me as being a considerable expense.

MR. FERGASON: It is -- but you -- but the strategy is to spread it out. I am very much interested in reducing that cost. I think we get ripped off in a number of countries. For instance, in Spain you can't file a Mexican patent in Spain. You can go the other way, but not -- so there's a lot of little things.

They have set ups that allow you, them, to keep their own bars fully employed, so you fun in to it. And it's country by country that they kill you.

REP.: Well let's take the small inventor who does not have a lot of capital, who has a good idea, he has filed for his application in the US, the period of 18 months arrives, he has that application on the brink of publication here, to protect himself internationally I think we're concluding here that he would have to file his application in Japan and in western European countries, perhaps file it centrally in the Munich European Patent office, but the cost is substantial there; and it seems to be, without necessarily endorsing Mr. Rohrabacher's approach, that perhaps he's made a point here. That small inventor is going to run up against a barrier in terms of being able to afford to file his patent application at a cost of \$250,000 in Japan and western Europe.

What do we say to that small inventor without access to a great amount of capital, who doesn't know what the market for his product is going to be, and perhaps cannot raise capital at the 18 month period sufficient to file abroad, about the 18 month publication requirement? What do we say to him, Mr. Ferguson?

MR. FERGASON: That was my point about the BCT. I don't think there's a good answer to that, and I've been very fortunate and been able to raise money on patents that I think are good by going out raising that money to get those patents filed abroad.

I can't personally afford to spend that kind of money on patents either. So, it's a matter of sales and so forth going into it. But the thing that I do is file a BCT which, and then I designate the countries and that allows the first publication and the examination -- and the publication to be made in English and to be before any foreign designations are actually acted on, and prolong the time that you have to raise the money.

It also let's you have more time to let you make a judgment on whether you want to file for it or not. I usually end up designating more countries than I -- but it's relatively cheap compared to filing in foreign and it can be done in English.

REP.: Now, what protection do you get when you do that again?

MR. FERGASON: You get your -- you protect your (inaudible) line basically, and they give you a separate examination.

REP.: Well, then let me just ask you, does that then take priority over a separate patent application that someone else might file in Japan or western Europe?

MR. FERGASON: Absolutely. Absolutely. It's full publication; it has all the rights and privileges that go with that.

REP.: Now, what is the cost for doing that?

MR. FERGASON: I think it's -- what is it? -- \$1,500 or something like that. It's -- if I remember right. \$2,500? \$2,500.

REP.: Well this is a very interesting area of inquiry for us and we'll look more carefully at that and see if in fact it does address the problem. I appreciate that response. Does anyone else on the panel want to comment on this?

MR. : I'd just like to mention that I don't think those figures are for the initial filing fees that Mr. Ferguson talked about. We've been averaging \$5,000 initial filing fees for Japan, and then the EPO, \$5,000 to \$10,000.

And we must understand that you have the ability to control if you want further prosecutions. So you can somewhat control your expenses in those.

The other thing is let's not lose sight of the fact that if you have a US patent, you can stop anybody from making, using, or selling that invention in the US

REP.: I think that was understood. And I don't think Mr. Rohrabacher's complaint was so much with regard to conduct here in the US, it was in regard to what might happen internationally. Mr. Kunninger.

MR. BUDINGER: Just one quick thing. This has been alluded to already but -- the US patent does not protect by invention in Japan. So whether I -- whether the patent is simply published in 18 1/2 months, or issued 24 months or 30 months, I am equally vulnerable. Having the US patent is no help in what happens in Japan.

And, incidentally, I salute Congressman Rohrabacher's attention to the cost issue of foreign patents. That's a major issue and it's something that does need to be address.

REP. MOORHEAD: It does affect our ability to export it to the United States though -- products that filing our patents.

MR. BUDINGER: Yes, absolutely. But from a practical standpoint, if the invention isn't already thought of -- we keep picking on Japan -- if the invention isn't already thought of by someone in Japan and then he first learns about it in 18 months and then he goes into engineering, and production and everything; from a practical standpoint, by the time he does all that, if he plans on entering the United States market, he's a fool because by then that patent is likely to have been issued and he can't get in there. He'd be fool to make that investment.

GENTLEMAN OF VIRGINIA: Let me, Mr. Linley, inquire of you, if I may, based upon the study that you performed of your conclusions with respect to the number of applications that are not acted upon within a period of three years. In other words, how many applicants would not have their patent issued within a time that would give them the practical effect of having a 17 year patent term.

MR. LEMLEY: Well, under the most realistic set of assumptions in my study, 87.1 percent of the applicants gained patent terms so 12.9 percent either stay the same or lose some amount of patent term.

My data also indicates that the vast majority of those who lose term, lose only a year or two years. And that it's a very small percentage that lose more than that.

The other thing that I would note, if I may, is that there are provisions in the current laws to take care of some of these circumstance. You can extend the patent term for interference, for appeals that are successful and many of the patents that in effect spend a significant amount of time before the patent office do so for that reason, and so therefore we get a longer term that is not indicated in my study.

REP.: And can you categorize the kinds of patents that we're talking about with regard to this 12.9 percent who would lose patent term. Are these products that tend to be on the higher end of the technology scale typically.

MR. LINLEY: One of the things that I did in this study was to break down the patents by industrial classification. I did that two ways. First, the way the patent office does it; breaking them into mechanical, electrical, and chemical patents, and there the data indicates that for each of those categories patentees on average, and a significant number of patentees, gain protection rather than lose protection.

It is true that in some categories patents take longer than in other categories, but on balance everybody across those industries gained.

REP.: And for the 12.9 that lose, can you assign any kind of categorization to them? Do they fall within one of the classifications that you said or can you make some estimate as to what -- into what field or series of fields these patents would fall?

MR. LEMLEY: Yes, I can. In the study itself, which has been provided as testimony, we break down each of those things. The percentages are different for each term. For example, chemical patents, one of the categories, 79.1 percent gain terms so 20.9 percent lose terms.

Electrical patents, 86.1 percent gain term, so 13.9 percent lose term. And mechanical patents, 93.2 percent gain term, so only 6.8 percent lose term.

REP.: So it sounds like in the chemical field there would be a higher than normal loss. What about in bio- technology?

MR. LEMLEY: I did study two technology software, and bio- technology, unfortunately the data sample that I have included a relatively small number of bio-technology patents. And while there are data that suggests that bio-technology patents take longer than any others. The data are not statistically significant so I would hesitate to draw a conclusion and act upon it for that reason.

REP.: All right. Let me ask you this question presuming that I know the answer, but I'd like to hear you state it in any event, and I'm addressing this basically to the panel. What do we do for those patent applicants who do in fact lose term when the operative law moves to the 20 year from data filing of patent? What do we do for those who lose term under that arrangement?

MR. LEMLEY: Well, some of them are already taken care of; the interference proceeding, the appeal proceeding, etc. Some others can take care of themselves. This is a pro-active, it's not a retroactive provision, people can refuse the delay to the extent that it is their fault before the patent law.

Now it's still true that a few, I think that my study shows a very few people will be injured by this new law. I think that all you can do is to weigh the benefits of the new law against its costs. Every aspect of your patent system has cost. The patent office occasionally wrongly rejects a patent, for example. But I don't think it would be wise to suggest that we abolish examination because some people had their patents wrongly rejected during the examination process.

REP. RORHABACHER Well let me just suggest to you that maybe some of you who are not content to accept a cost and try to do something to take care of the problem of the person who loses term and winds up with less than 17 years. And do you have any suggestions for how to someday address that problem?

MR. LEMLEY: One way to address that, and I think probably a good one is REP. Moorhead's way. That is under H.R. 1733 to provide some sort of provisional rights to people who are in this situation so that when the patent office does issue, they get not only the exclusive right after issue but the rights to go back and collect royalties for the entire period of prosecution.

REP. RORHABACHER Let me finally ask a question that perhaps is somewhat unrelated to the core reason that we're here today but may have a bearing as well, and that is this: We are perhaps the only nation or one of a very few in any event that awards intellectual property rights for technology and innovation based upon who was the first to invent. Most of the rest of the world does it based on who is the first to file for the patent. Would there be any advantage or disadvantage to the United States if we were to adopt a first to file system like most of the rest of industrialized world, if not all of it?

MR. LEMLEY: Are you addressing that question to me or to the panel?

REP. RORHABACHER Anyone on the panel.

MR. FERGASON: I'd love to answer the questions because I believe in -- I've been involved in a number of things. I am very against interferences. I think that doing the first to file will get rid of the interference proceedings. Now let me explain why I think the interference proceeding is terrible. It is a legal proceeding. You have to prove who was first. You have to take deposition. You have to do everything that a normal suit has to take. That's very, very expensive. Now, if considering you're a small inventor, I was once told by Hoffman Laroshe that we'll keep you in the patent office forever. They couldn't do it because the way I planned the situation, but they threatened it. There is no recovery for interference. So if you're a small company you get into an interference with a big company and you get stuck in there, you have to pay your patent bill because nobody will take it on contingency. There's no contingency to it. So you're stuck. You're stuck big.

So me, I'd love to see first to file.

REP. RORHABACHER Now what disadvantages might you imagine from it? Would anybody be hurt as a consequence of that? What about the small inventor who perfects a technology but doesn't really know the procedure for going about filing a patent application and perhaps someone learns of what he is doing and beats him to the punch? Is there a problem in that?

MR. FERGASON: I think that this is a risk. I think you can say that, but it's a risk in any case. The guy that actually invented the device which is signals when you take a book out of library or something like that made a mistake talked to the wrong people and was not able to prove his inventorship and lost it. He couldn't afford the fight it and just flatly lost it.

REP. RORHABACHER Let me ask you one other question while you have the microphone. Mr. Representative, I hope I'm not trespassing too much on your time here but it's an interesting subject. Do we solve problem if we go to first to file. Is that an effective way to do it? Or does that effect it?

MR. FERGASON: I wouldn't think that would have any effect on the submarine problems. The submarine problem is more a procedure after you get into the office. But a first to file does solve one of my big problems. And that's the procedures, any procedures for a small inventor that does not have recovery.

REP. RORHABACHER Other comments.

MR. : I just want to briefly note referencing to (ror's?) chart presented earlier today which listed three examples of patents that spend a significant amount of time in the patent office. The first of this, I believe, was Crystal and Polypropolene. The listen that it took so long to issue the patent for Crystal and Polypropolene was because it spent that time in a interference polypropolene and under the first to file system presumably that patent would have been issued significantly more expeditiously.

REP. RORHABACHER Other comments. First to file, any idea? Yeah or nay. All right. Well, I would like, Mr.

REP., to thank these witnesses for the time they spent with us an the ideas they shared with us and I thank you for your indulgence.

REP. MOORHEAD: I wish to thank you all too. It's been a good discussion. Our second panel this morning consists of six distinguished witnesses. Our first witness a Dr. Raymond Damadian who is the president and representative of Thorp (sp) Corporation a graduate of Albert Einstein College of Medicine, the University of Wisconsin and (inaudible) arts School of Music. Dr. Damadian holds the original patent for the MRI, otherwise known as the MRI, the magnetic resonance imagining. He pioneered patents (inaudible) at the US Patent and Trademark Office which through today has obtained over 700 patents. He received the national Medal of Technology from President Reagan who recognized his efforts in that field. Well come Dr. Damadian.

Our second witness is Professor James P. Chandler, whose the president of the Intellectual Property Law Institute, which is a nonprofit resource and educational center involved in patents of (inaudible). From 1977 to 1994 Professor Chandler was director of the Computer Alliance of George Washington University. He was also instrumental in creating the Computer Law Association of America, serving as a member on its board of directors from 1972 to 1982. Welcome, Professor Chandler.

Our third witness, Dr. Robert Rines, the founder and past president of the Franklin Pierce Law Center. Dr. Rines is the a registers professional engineer and inventor and composer and lawyer. In 1994, Dr. Rines was inducted into the Inventors Hall of Fame for the recognition of his inventions of high resolution images, scanning, radar, and sonar. He used the submarine detection (inaudible) which is used in boat navigation, (inaudible) sound imagining and patriot missile tracking system. Welcome, Dr. Rines.

Our fourth witness is Ms. Diane Gardener, who's currently a patent agent from Molecular BioSystems Incorporated, a biomedical company that develops a range of contrast agents for the use of diagnostic ultrasound. Prior to that, Ms. Gardener was a patent examiner at the US Patent and Trademark Office. She is currently a member of San Diego Intellectual Property Association, the licensing (inaudible) society, chemical law division of the American Chemical Society of the American Intellectual Property Law Association. Welcome, Ms. Gardener.

Our fifth witness is Dr. Paul Crilly, since 1987 has been an associate professor of electrical engineering at the University of Tennessee (inaudible). In January 1994 to July 1995 he was an IEE USA congressional fellow, who served on the professional staff of Congressman Dana Rorhabacher. From 1978 to 1989, Dr. Crilly has been awarded three patents as a member of the technical staff of the Hewlett Packard Company. Welcome, Dr. Crilly.

Our sixth witness is David E. Hill. Dr. Hill is a nuclear physicist and the current president of the Patent Enforcement Fund Incorporated which assists small inventors involved in suits.

Dr. Hill worked at Enrico (inaudible) in building the first nuclear change reactor and subsequent nuclear experimental research. Dr. Hill is an associate professor at the University Tennessee. And was a leader in the field of nuclear physicist at the University of California, developing the scientific laboratory. (inaudible) In addition to having lectured in the areas of atomic energy, science and public affairs. He is also been the president of the (inaudible). Welcome Dr. Hill.

We have written statements which I ask unanimous consent to be made part of the hearing record and ask that you summarize your statements to six minutes or less. I may give you one more minute each. Thank you. We appreciate you being here, and I ask the members of committee to hold their questions until all of you have had a chance to testify. Dr. Damadian, do you want to begin.

DR. DAMADIAN: Mr. Representative, I begin with a introduction to the US patent system, its purposes and it's benefits. Much of the attack directed at the US patent system that you and I are here to defend against arises from the a lack of appreciation, I think, of just what the US patent has done for the American people and how directly it has caused the financial well being of every person in this room and, indeed, every person in the America.

I begin from this premise because it is impossible for me to imagine that men and women of such noble intentions (inaudible) this Congress could tolerate even for a moment such hostile attacks on this institution of the US patent if they generally understood what a crucial role it has played in generating most, if not all, of the wealth that our people have had the privilege to enjoy.

They would view it as a betrayal of a nation and its promoters, perhaps, and its betrayers. They would recognize without qualifications that we should be laying our gratitude at its feet, instead of seeking its destruction. The history of

what the patent actually did is simple. Appreciating what it did sufficiently to grasp the full measure of the finance tragedy that lies ahead if we do not turn aside the current concerted attack leveled on it by bills like H.R. 1733, H.R. 1732, and GATT is a different matter.

The steps taken by America's founders, step one: 1780 Washington and the founding father for the first time in all human history make the right of the substantial economic power of a patent an absolute right of every citizen of the new Republic. As far as the new Republic was concerned, the issuance of the patents was no longer to be the prerogative of money. Instead, it was to become the inalienable right of every citizen. They wrote in Article One, Section Eight of the US Constitution: "Congress shall have the power to promote the progress of science by securing for limited times to inventors the exclusive rights of their discovery."

Note that the founding fathers did not give a royalty. They give, instead, the right to exclude. The right to exclude was the means. It was the means for the inventor to receive the protection he needed from large competitors so he could build a new business for America.

Step two: 1790. Washington in the first US Congress enacted the first patent about on April 10.

Step three: The enacted patent ignites the industrial revolution. Whitney, Morris. McCormick, the Wright brothers, Eastman, Goodyear, Edison, Bell, Westinghouse, Dow, Deer, Howler etc. many others, all filed patents in the first century after the patent is enacted. The companies that patenting found International Harvester, Kodak, Goodyear, General Electric, AT&T, Westinghouse, Dow, Deer, IBM and many others opened the industrial revolution and generated enormous wealth for America and for Americans.

All these patentees exercised the right of the patent to exclude others in order to build their companies. During the first hundred years of operation, AT&T and Bell's patents generated an estimated \$3 trillion in salaries for AT&T employees. Understood scoring the Senator from Connecticut, O.H. Platt's famous statement in 1891: "There never was a true invention from which the public did not reap infinitely greater pecuniary rewards than the inventor."

The patent fulfilled the purpose of George Washington and the founding fathers. The right to excludes proved to be the magic formula for founding new businesses the young Republic so badly needed. It worked. The first century citizens of the new Republic understood that the patent had created all their prosperity.

At the 1890 centennial celebration celebrating the patent, the citizens of Americas lavish their praises on the patent and give it full credit for the all the prospering of America's people.

This is why I have come to Washington this day, Mr. Representative, to testify. I see it as my duty. Having perceived the enormous impact of the US patent on America history and having experienced firsthand the staggering power possesses to shape the economic destiny of a nation, I consider it my duty to report my observations to the honorable men and women of this Congress and to persist if need be until I gain your proper attention to the matter.

In short, Mr. Representative, I have come humbly to plead this case. I have come sir before you, Mr. Representative, because you are in my opinion, the chair of the most powerful committee in all of to Congress. With a turn of your hand, Mr. Representative, you can steer the good ship of America away from it's persisting and ever lengthy economic decline. Your committee and you, Mr. Representative, have the power to turn our ship into the lain of boundless prosperity instead. The US patent possesses all that power, Mr. Representative. All that is needed is its proper administration and its proper protection from assaults. I humbly beg you to free the patent from bondage, Mr.

Representative. I'm begging you to use your great power to set it free so that it once again can do what history so amply taught us it has done before. I beg you to give no quarter to its attackers.

I remain confident, Mr. Representative, that you are fully aware of the solemn power that has been entrusted you to care and to care to effect the nation for centuries to come and that you will commit to the exercise of that power with equal solemnity.

I have here a chart which I call the chain reaction of enforced patents and the change reactions of unenforced patents.

At the top you see that if we successfully enforce patents, what we achieve with enforced patents is that the investors trust patents. We see that investors trust patents. The immediate result of that is we produce abundant investment capital, and there's a directed change reaction from that: Many successful new manufacturing enterprises -- and there's a list of them that I put in writing. But the most significant outgrowth of investors trusting patents and the abundant investment capital is -- and I've highlighted them --increase employment, increased tax revenues from the American government, and another important one that I'd like a draw your attention to is the chance for upward economic mobility for America's poor and disadvantaged.

Now then, if we don't enforce patents and we go to the bottom charts, unenforced patents. We produce disregard of patents. We produce disinterested capital in patents. We have fewer an fewer successful manufacturing enterprises.

We have loss of employment. We have declining tax revenues for the American government. We have negative balances of trade; and very importantly, we have destruction of hope for upward economic mobility for American's poor and disadvantaged.

The US patent is the story of the MRI. I have come before you this day, Mr. Representative, to tell you my story. The story of MRI. Twenty-five years ago in 1970 I made the discovery that opened the field of MRI. From that date to this, I have labored diligently to advance the technology and perfect it so that the public could have its benefits. I labor now with all my energies to reduce its costs so that America and the rest of the world's people can readily afford its life savings attributes.

But the course to its current state has not always been easy, Mr. Representative. In 1977, after overcoming a multitude of financial and technological difficulties that blocked our path, my graduate students, Mike Goldsmith, Larry Mincoff and I completed the construction of the first human scanner. And the (inaudible) the first of the a live human being. Shortly thereafter, I left the university and with my students formed the first MRI company. We called it Sonar Corporation. We commenced to manufacture of MRI machines.

REP. MOORHEAD: Excuse me. We're not being rude. We're in the final stages of a very important vote over on the floor. And Mr. Goodlatte's been over to vote on it, so I'm going to ask him to take the chair. I know you people waited for a long, long time, and every single word is in the record and believe me, we read the comments because -- they won't be missed

REP. GOODLATTE: Thank you, Dr. Damadian.

DR. DAMADIAN: After completing the first live human scan, -- shortly, thereafter, I left the university and with my students formed the first MRI company called Sonar Corporation. We commenced the manufacture of MRI machines. By 1980 we introduced the first commercial scanners to the world. As of today, we have been in business 18 years and have sold and installed approximately 200 MRI machines worldwide. We are publicly traded company on Long Island with 300 employees, but the road has been difficult and painful, Mr. Representative.

MRI has been a multibillion dollar industry and while President Reagan awarded me the National Medal of Technology at the White House for the MRI, and while I was inducted into the National Inventors Hall of Fame from my invention, neither my company nor I have ever received a single royalty for its patent. The courts did not enforce by patent. I did not receive the promise of the US Constitution, "Exclusive right of inventors to their discoveries for a limited time." So fully earned, and fully justified, I was never granted the promise the Constitution promises.

I did not receive any protection in the marketplace as the Constitution promises from hosts of multinational corporations whose only claim to our technology was that they wanted it. But I have not come to complain, Mr. Representative. While I would be less than candid if I did not admit that the above turn of events caused me a measure of anguish by its lack of fairness. I have come notwithstanding that personal distress. I have suffered in these matters sincerely hoping that I might be able to convince you, though sadly, that it is not I who has sustained the major injury in this failed enforcement of my MRI scanning patent.

Even more sadly, the victims have been America and her people. As much as I wanted to, I was not able to build another great industrial enterprise for America as Bell, Edison, and the others have done. Our company was not able to create the tens of thousands of new jobs for America that enforcement of our patents would have insured. Instead, out of nine companies making MRI machines today, only two remain that are American. All the rest are foreign. Three are Japanese.

Simply stated this means that the majority of the multibillions of dollars generated each year by the sales of MRI machines goes to foreign citizens. As a patriotic American, this grieves me, Mr. Representative. MRI is an American invention. It is only just that its proceeds should be used to pay American salaries. The Japanese contributed nothing to the development of MRI. It is not just that the income from America's invention of MRI should be flowing to the citizens of Japan, instead of to the citizens of America. It means that tax revenues through the sale of MRI machines are flowing to foreign governments. It is not just. The tax revenues from the sales of MRI machines should be flowing to the American government. Instead, it's flowing to the government of Japan.

It means today that America spends more in purchasing medical equipment from Japan than the Japanese spend in the purchase of medical equipment in America. In 1992, America had an American medical equipment trade deficit with Japan of \$320 million. If my MRI scanning patent had been enforced, that medical equipment trade deficit would have been a medical equipment surplus. The surplus would still be growing.

The current bill before Congress, in my view, are unmitigated attacks on the US patent system. They really should be recognized for what they are. Their purpose is to inflict a mortal wound on the US patent. Three bills before Congress, H.R. 1733, H.R. 1732, and H.R. 1659 plus a fourth that is constantly being threatened, the replacement of first invent by first to file, plus the new GATT patent legislation, when taken in concert as they must be, can only be construed as a concerted attack on the entire US patent system, to over all purpose of which is to mortally wound it.

In addition, to the Japanese, a few large domestic companies are leading the current charge against the US patent. These are the same companies that the newspaper headlines tell us daily are laying off hundreds of thousands of employees across the country as they continue to lose sales to their Asian competitors. Maybe, we shouldn't be taking

their advise. They haven't been able to figure out that they are losing these jobs because patents aren't working. Indeed, they are living proof of my strongly held view that when patents don't work, people lose their jobs and they lose them in large numbers.

There is another issue, Mr. Representative, the patent is a proper alternative to welfare, with far more economic potential and job potential than welfare ever had. With a strong patent, our afro- American brethren can start new businesses and make major advances up the economic ladder. Can we really argue to our understood privileges brethren that there are more productive alternatives than welfare and then turn and render impotent the most powerful weapon on earth that exists for him to use to bootstrap himself and his community into the economic main stream.

GATT replaces 17 years from the date of issue with 20 years from the date of filing as the new patent life. H.R. 1733 calls for publication to the world of a patentee's application prior to the patent's approval and issuance. The provision replaces the long-standing secrecy of a patentee's application until granting of the patent. It exposes the patentee to worldwide exposure of his invention even though he may never receive a patent. Most inventors will elect to hold major new inventions in the future as secrets, rather than risk patenting them. The patentee will recognize the publication of his application prior to patenting will invite a tax on his patent prior to its approval by the patent office by adversaries seeking to prevent its issuance.

H.R. 1732 expands the power of large adversaries to request the re-examination of existing patents by the patent office. It empowers teams of highly paid corporate lawyers to argue their re- examination case within the patent office with the on the patent examiner who is unskilled in legal matters presiding.

The current re-examination laws do not permit outside intrusion in any re-examination proceeding. By so doing, H.R. 1732 expands the power of large adversaries and their corporate legal teams to eliminate existing patents of small entities without the adversary being forced to conduct those adversarial proceedings under the watchful eye of a judge. Under present law, small entities are protected against attacks by large companies. The patent is presumed valid and litigation cannot be used to challenge a patent's validity, unless an enforcement action is initiated by the patent holder, the small entity in most cases.

H.R. 1732 alters this balance. The legal armies of giant corporations will not be empowered under H.R. 1732 to initiate attacks in the patent office on small entities by forcing small entities to exhaust their finances defending patents. Few will be able to withstand such attacks.

Additionally, H.R. 1732 will empower large corporations to initiate these attacks on small entities risk free. Under present law, litigious challenges to patent validity can only accompany the attempted enforcement of a patentee's patent in a court of law. Under present law, the party challenging the patent's validity in an enforcement action by a patentee must face the prospect that in the event that he loses, he will be enjoined from making the product and will be compelled to pay damages for infringing the small entity's patent. The prospect of a loss prevents frivolous attacks on patent validity and compels infringers to seriously negotiate pretrial settlement with patentees when they recognize that their use of the invention has a high probability of being deemed infringement by a court of law.

Operating in concert as the designers of this pending patent legislation's apparent intent, a patent life that begins under GATT when a patent's filed; is expended when the patent office fails to issue the patent in a timely fashion. An 18 month publication under H.R. 1733 that can be counted on to instigate challenges to a patentee's application before his patent is granted and further consumed patent life. And a right under H.R. 1732 to litigate the validity of the issued patents in the patent office with the patent clock still on the run should, at a minimum, substantially curtail the effective life of most patents.

Additionally, 18 month publication exposes the patentee to the prospect that his invention will be disclosed to the world even though he may never receive a patent. H.R. 1732 means that all adversaries may attack his existing patents risk free and proceed to exhaust his finances with impunity.

All together, the proposed legislation represents, in my view, a mortal wound to the American patent system. Mr. Representative, I pray sir that you may exercise your steward ship to repulse this attack. No amount of hand washing in the future will be able to erase the economic wreckage that will be the aftermath of these bills. H.R. 359 restores the patent's natural lifetime and begins the road to recovery. I beg you to seek its speedy passage and commence the economic recovery of our nation.

REP. GOODLATTE: Thank you doctor. Dr. Rines.

DR. RINES: I don't think, Mr. Representative, you're listening to chicken little. The sky is falling. When large multinationals and certain people if the patent office are determined to have us harmonized couldn't push through harmonization, they decided to do it piecemeal. That's what you have witnessed for the past few years all these attempts to change the US patent system.

The latest of which is the 18 month, earlier the 20-year term and now, the final (inaudible) prior user rights which didn't exist in the United States and the final one first to file (inaudible).

This is an attack on a system that isn't broken. It is stunningly successful. I want to take you now not to the testimony you heard earlier by giant corporations, by bureaucrats. But I'd like to ask you to come with me into your office one day as an independent inventor or a university inventor or a small company inventor come into the patent lawyers office with a baby invention. Now we clearly have to describe this quickly and get the earlier signed date we can on a patent office when we don't even know what the invention is. You think Dr. Damadian knew the significance of his MRI when he filed his first patent application?

So with this totally incomplete understanding, we file and we claim it the best we can. It's a first approximation. Now the patent office comes and does the search. In the light of that search, invariably rejects our plan. I don't like the words, its encroaches on this and so forth and so on. Now you know what the culprit is? The US patent office gives us only one chance to (inaudible). One chance, think of that. When you're dealing with new technology and things that are cutting the edge of the state of the art, we're supposed to be so clairvoyant so we can get our patent with one response to the patent office citation of (inaudible).

What happens then? Final rejection. That's the rule of the patent office. Final rejection. So the inventor or the patent lawyers, like myself, then have to either appeal to the board of appeals on a cockamamie case that has no dialog, not even ready for it or drop it or file a continuation. That is, pay a new filing fee to the patent office; start all over again with a new examination and everything else for the privilege of having another opportunity to have a dialog with a patent examiner.

This doesn't go on just once for break through inventions. In a moment, I want to tell you about three that I've been involved with, four, including one of my own. For those kind of inventions sometimes we need three, four continuations. I have one for a client right now with cockamamie rejections from the patent office saying it's not a patentable class of invention. It's an (inaudible). Well I know how to claim things. It's not an (inaudible). I have to keep fighting with the examiner and each time final rejection. Each time new fee. Each time new delays for examination. You didn't hear that side of story, did you?

When you talk about all these bad inventors all their bad lawyers who are purposefully delaying things. Unless, you have any sympathy or Bill Budinger -- I love him -- who testified a little while ago that oh yes he's tempted as an inventor to try to delay his patent. He's the man whose behind the prior user bill saying, why do you even want to use the patent system? I want to have trade secrets, and I want you to protect them. You could see what you could think about his testimony.

Now, something else that wasn't touched on here. Let's talk about royalties to inventors for the moment. Let's talk about the Damadians. Let's talk about the (inaudible) and the others. Well royalties is not the name of the game. I want to make a company. I want to have jobs in America. I want to build organizations. I don't want somebody else jumping in and competing with me. I want these proofs of privileges of patent, not royalties. That is the historic story of America. That's where the giant corporations that Damadian mentioned, that's where the Gates and all the modern companies we have here today. They weren't in existence 20 years ago. That's where they came from. And that's from saving your skin and mine. That's where the jobs have come from the past 20 years.

For goodness sake don't look to the big people right now. They can't find their way out of the paper bag to make any important inventions, the way they proceeded by buying up technology. Then where did they buy it up if we haven't had a system here that was conducive to having this new refreshment, this new seed corn coming along the line? Since none of us can be clairvoyant on day one for this patent claim. You talk about inventions. What the devil's an invention? You define it. The law tells us how to define it. By a patent claim. If I don't know the full scope in the beginning, I don't know how to draw a fair patent claim, and for the patent office to shut me off the first time, that's a heck of a way, particularly for the independent inventor.

Now our good professor did a study of all these patents. Most of these patents, my dear friends, are nothing in comparison with those patents that reside in the forming of new companies and making jobs. The new companies of the future. Ninety-five percent of these patents are uneconomical. They don't give jobs. What we're pleading with you is to look to the important economic inventions of this country and do not make it impossible for those organizations to spring up and bring the new big companies of the future by this 20-year shackle rule or by this concept of publication after 18 month.

Now something that was not touched on today, I must call to your attention. Forget the time of the prosecution in the patent office. Did you know that the studies that I have done of my MIT classes at the Franklin Pierce Law Center in my own law practice, and we've published, but nobody seems to want to look at those publications tell us that it takes seven to nine years after the grant of a patent. I don't care what's your system. Seven to nine years after the grant of a patent on an average for an invention to stop to be commercialized, and the profits to start to be earned. That's after the grant of a patent, Moorhead. Seven to nine years for commercialization, not after the filing of a patent application.

When we come to breakthrough inventions, it's from twelve to fifteen years from the date of issue. Date of issue, not the date of application when commercialization could start. You folks talk about this as if the invention is the patent.

That has to be realized in some commercial form. It takes money. It takes time. It takes honing. It doesn't take the patent office attitude of speed and bureaucratic haste. If we end up with a patent claim that is inadequate our company will not be able to be launched even. If in 18 months of our patent application we publish this in the United States; and I'm talking now about those kinds of people that are making new companies, new jobs, not people asking for royalties. They haven't even gotten their patent yet. You publish that, and it may very well be the others with more money can move faster into the field.

So, based on that, I think that it's also important for me to say that the cap on the term extensions as proposed in 1733 are wholly inadequate for the bio-tech field, especially. That is because there are several instances that I can conceive of where the term that would be lost would exceed the cap limit.

The other thing that's involved is that when you are in the bio-medical industry, you see the greatest returns on your money at the end of your patent term. That is where you're finally going to be making all of the money. You're finally going to be making a profit, and you're going to see some success. Any shortening of the terms that you would have otherwise been granted is going to be detrimental. It's wholly unfair to place unparticular technology aside from the others and have them treated in this regard.

Basically, I would like to say that PTL efficiency is at the heart of all of our problems. While there's been significant improvements made in various aspects of the examination process, there needs to be a lot more improvement. I think that as a former patent examiner, I know just how arbitrary the examination process can be. If all applicants were insured of equal examination time and if that time truly were two to three years, I don't think that the 20-year term would be that big of a difference to people like myself who are here today urging it not to exist. I think that the publication at 18 months works to the detriment of the sole or small inventor who may not have the resources to find file if they haven't had to benefit of a first office action at the time 18 months comes around and let me tell you that does happen. Two months ago I just got a first office action on a case that had been pending for 26 months already. So if you haven't had a first office action on the merit at 18 months, it gives the inventor absolutely no opportunity to withdraw that application and maintain it as a trade secret. That's truly unfair.

Typically, I have several applications pending in group 1800. They're ten to fourteen years old. We do not even practice that technology anymore. There would be nothing that would make me happier than to get those things off my docket. I am not intentionally submarining them. I would love to see those things go to grant and for me to be able to license them to somebody else and forget about them. Basically, the problem is I file continuation after continuation because although the examiners are truly technically secure, they are wonderful in that regard.

The examination as far as the legalities involved, 101s, 112 rejections, the examiners who are making them are really not trained well enough. So it typically takes a patent practitioner several different tries as was alluded to before to prove the worthiness of the invention. That is where you see all of these continuations. It's not because we don't want to get the technology granted. I would love to get the technology granted. I need to get the technology so I can convince my venture capitalist to give me money. They are not going to give me money on something that's only pending. They are not going to give me millions of dollars on rights to which they are not sure they'll ever achieve or not.

I think that in general, small bio-tech companies like ours feel that we are being unduly harmed by the 20-year provision given the special needs that we have. It takes us so long to get our products through the FDA. If the PTO were more efficient, the publication would be less detrimental. Typically, foreign patents involve improvements, and the US patents involve core technology. Core technology takes an awful lot longer to go through FDA regulatory approval than it does for an improvement thereon. So we're looking at situations where by the time we finally get our first product to market, if foreign companies have had the opportunity to see our invention through foreign publications, they could, especially if they have greater resources, they could definitely have a second generation product ready to go through our system riding the coat tails of our hard work through the regulatory process that follows us directly into the marketplace. It's just unfair.

I'd like to also mention that I think that any publication provision needs further additional provisions to curb the public use proceedings, to curb prior user rights, and definitely amendment to the requirement for reasonable royalty. Especially as it stands in 1733, the requirement is that the claims that are in the granted patent would have to be identical to those that are originally filed in the application, and I don't think there's anybody here that would argue with the fact that that almost never happens. That is the entire process that occurs during examination. You amend the claims. You scope and mold. So if that were the requirement, you would never see reasonable royalty.

Having said that, I would like to make one more comment since it's been brought up several times today on first to file. First to file is bad. We are not in favor of first to file at my company and others like mine. It is unfair to the true inventor. Article One, Section Eight constitutionally mandates that we give a reward to the first to invent. That does

not mandate that we give a reward to the first person who has the resources and capability of filing. Although it allows for interference practice, which is potentially costly, I also feel that on the other hand a large company has the resources and capability and the know how and the savvy to file something earlier than a small inventor would also. So it's six of one half dozen and the other.

Having said that, I'd like to close. I think that the people that I'm here representing BioCom, in San Diego, with the trade industry related to the bio-tech corporations that are prevalent in my area, we wholeheartedly support H.R. 359. It's the best of both worlds. It gives a full solid patent term that we can offer to form strategic alliances and get investment capital and with the publication provision on the continuations, it does curb the submarine patent issue. Thank you.

REP. MOORHEAD. REP.: Mr. Crilly.

MR. CRILLY: Thanks for being here -- that I can be here. With your permission I'd like the another additional written statement in the record. Give the tremendous fruits of the American patent system and we are in a so-called information age, it seems peculiar that there's been such unprecedented attack on this system and the patent rights enjoyed by Americans. This attack has led by those same persons who are down sizing and exporting jobs over seas. They and some of those in authority in the US Department of Commerce and other government agencies view US patent rights as a trade-trade shift. Something to be negotiated away to foreign competitors. Bill H.R. 359 is corrective legislation that will restore the patent protection Americans have had for over 200 years, and additional years. In 1865 or so, this 17 year grant was put in place. So that's been around for a long time. We receive \$20 billion in 1993 alone in patent royalties from other countries. I'm afraid that unless H.R. 359 passes, the mechanism we use to create products that save our lives. I'd like to see some day a cure for AIDS and a cure for Alzheimer's and a cure for heart trouble. Those are going to come about because people invent things that will cure those things. The United States is the leader in life saving technology. Whether it be penicillin or whether it be other antibiotics or whether it be Mires and things like that. We are the leader in that and it's because of our patent system of Texas at Austin, we will get those benefits with the Rohrabacher bill. We will also get at least a guaranteed term of 17 years. That's what we need to have. Why would you invest in something if the term is uncertain?

The 20 from filing term, the applicant is at the mercy of the patent examiner. When you apply for a patent, you're dealing with a large government agency, and as Dr. Rines alluapply for a patent you may want to make it as broad as possible. The patent examiner will try to narrow your claims down, and that may require you to file divisional, a continuing application or whatever. But the point is is that ultimately you get a very -- you get a patent or patents that are fairly broad and are worth a lot of money. If we have a system where 20 years from filing, where the clock is already ticking, you'll get the first thing -- you'll get the first Uruguay Round agreements. The letter that Congressman Rohrabacher alluded to from Clayton Yeutter -- the intention of those patent provisions was to strengthen every country's intellectual property laws. And we've seen that with the copyright laws. I think it's fascinating to see that the copyright laws, as we speak, are being strengthened. I think that's good. We should protect our copyright holders. But why are we picking on the inventors? Why are we demonizing ts to it. We just get 17 years from grant, or 20 years from filing.

But the intent on the Uruguay Round and the GATT agreements was to strengthen other countries intellectual property laws. And so they set a floor of 20 years fronger patent term. And I think that's the point. The Uruguay Round was not to harmonize the patent laws of all the countries; it was to strengthen other people's protections.

Patent protection is a constitutional right, not a trade (trick ?) to be negotiated away. And I guess that leads to my next comment -- is who cares about average pendency? The patents office claims 19 months average pendency. Some other people claim 36 average pendency. Some people claition that issues in 18 months. When I was at Hewlett Packard, some of the patents issued in one years or two years. That's great, but they were very incremental ones. And yet the polypropylene plastic patent took 27 years to issue. And, by the way, just to clarify the record, that was held up because of interferences. It took them almost 17 years for the patent office to figure out who deserved tht some malicious inventor holding up the process -- and I believe that was also true on the laser.

U.S. citizens are entitled to equal protection under the law. So I should get the same patent protection if I had a major inventiond they can -- they have a lot of -- they can take advantage of that. The little guy doesn't have that. And patent protection protects the little guy from the big guy.

The current bill, 1733, 1732, and this prior user's rights bill, will encourage trade secrets. The intent of the Founding Fathers was you get a limited period of protection, but then after that it's published and everybody can enjoy it. By (pre-grant ?) publication, you are going to encourage trade secrets; by prior user rights you are going tble an individual to create new industries. And I really admire what he has done. He created a new company from nothing, and it provided all kinds of jobs and taxes, revenues, to Long Island and New York State.

Now, from my persbacher Commission in 1992, the big companies have sought to weaken the patent system. They wanted things like 20 years from filing. But the Congress has always rejected these. In both of those commissions there were no independent inventors represented. The universities weren't represented even, except in the 1992 one -- and even then it was the president of the university who is a former CEO of General Electric.

But Congress has always rejected these commissio wrong, figure. Put the charts up -- those charts. Let me -- that 19-month figure does not take into account the original filing date. Let me give an example of that one right there -- your left hand. You file a patent in 1980. The patent office issues restrictions; and that, by the way, is why a whole string of patents get issued. It isn't the patent -- it isn't the applicant's fault that those things get done; it's because the patent office issues restrictions. And what that means is they're saying your patent is too broad -- you've got to file a few -- you've got to refile and do some smaller applications. So, okay, in 1994 you file another -- you file some divisionals and some continuing applications; in 1986, they require you to refile again for appeals, or to appeal a final rejection. And in 1988 your patent has been issued. Okay? So something that took -- that is measured -- you have one, two, three office actions. Actually four office actions that took eight years will be counted as an average of two-year pendency, when it's really -- it took eight years for that patent to get issued. So, again, that 19-month figure does not include the original ancestor date. It includes all the office actions in that.

And let me give another illustration of that with the next one. Somebody files a patent in 1950, and the PTO imposed a secrecy order on it right away, which means it's a threat to national security. And so it's imposed for 40 years. Well, in 1990 the government lifts this secrecy order up, the application is refiled, and the original one is abandoned. Now, when people say applications are abandoned, it sounds like something really terrible. It's routinely done, because when you refile then you also abandon the original application. And then the patent issues in 1990. So as far as PTO is concerned, the average pendency on that patent was six months. It was not 50 -- 40 years plus six months. And that's a very important thing to note.

As I said before, the laser and the plastic for beverage containers took over 20 years to issue. They would not have gotten a patent term. And none of those were due to the fault of the patent applicant. Those were due to interferences or other things.

On August 12th, 1994, Commissioner Lehman (sp) claimed there were 627 submarine patents that took over 20 years to issue. We called the patent office up, and we said, Tell us why were those 627 applications delayed? What was going on? Were they due to divisional application? Were they due to continuing applications? Were they due to secrecy orders? They couldn't tell us why they were delayed. And I said to the man, I said to (Lee Skillington ?) -- I said, "So you based changing the patent law, and you do do." Well, after Congressman Rohrabacher wrote a letter requesting that they come up with some numbers. And it's in the written record here, but I'll just show here a pie chart. Two thirds of the pie chart -- the delays are caused by secrecy orders. They were not inventors that were elongating the process. And that's -- and of the total amount, only 167 or 26 percent were due to continuing applications. But even then we can't prove, and the PTO has not proven, tt along the same lines is there is only anecdotal evidence of submarine patent abuse. Every time a lobbyist would come to our office and complain about our bill, H.R. 359, they'd always bring up Jerry Lummelson's (sp) name. That poor man has been demonized some unbelievable degree. You know, he's never had a chance to defend himself. I don't want to defend him myself either. But we are going to change th patents are delayed.

Finally, it's ludicrous to suggest that weakening our patent system will improve our trade imbalance. The idea is that we'll weaken our system, and hopefully Japan will be a better trading partner, or Japan will enforce their patent law -- patents better. I think it's interesting to note in the DeConcini study by GAO, foreign companies, or American companies had a difficult time in Japan getting patents and getting their patents enforced. I don't think there's anything to suggest that all these concessions we're doing to our system is going to make Japan behave better.

You know, it took Texas Instruments 17 years to get their integrated circuit patent issued. When they applied for it in 1960, they didn't get their patent issued until 1976 or '77 rather. So TI only got a three-year patent term on their integrated circuit. So I don't see how Japan will again improve their behavior if we weaken our system. Let them improve their system. If we want harmonization -- fine. Let's let all the other countries bring their systems up to our level, where a person with a creative idea can get good protection for their idea, and not just favor the large corporations.

I'm speaking mostly for myself, but I have been authorized to speak for the Tennessee Inventors Association, which I am on the board of directors. And many universities -- there's a list as long as the day of universities that have endorsed this bill, including -- (inaudible) -- MIT, Harvard, and various other schools, as well as many inventors groups. Thank you very much.

MR. CHANDLER: Mr. Chairman? Thank you, Mr. Chairman. I would like to begin by observing that your earlier remarks -- I appreciate it very much. I agree with the chairman that worldwide enforcement of patents is extremely important, and that our country should do everything we can to bring that about. I should observe that I don't speak for

anyone -- except myself. My -- I am president of the National Intellectual Property Law Institute, and I have been a professor of intellectual property law for a quarter century. But I come before you today with only my expertise to offer.

I only have three brief points, Mr. Chairman. The first is with regard to H.R. 359. I observe, as I think most speakers on either side of this issue observe, that there is no inconsistency between a 20-year from date of filing and the 17-year patent term. The GATT does not proscribe 359; it is entirely consistent with the GATT. You can have 20 years from date of filing, and at the same time have the 17-year minimum guarantee. I will observe that with respect to all of the testimony I've heard today that no one has come forward to assure this committee, subcommittee, that there will be a guaranteed minimum term of 17 years under the 20 years from date of filing. And let me explain why that isn't so. We heard conversations that it will be 18 and a half years on the average under the 20 years progress, and those which have been enacted, we have a very different patent prosecution procedure, process, than we have at the moment. What are the new elements? The new elements would be that under 1733 there would be an 18-month disclosure that would inform everyone of what is pending in the patent office. We have imposed under the GATT a worldwide prior (art ?). So no longer is the American inventor who files for a patent limited to searching the prior (art ?) in the process that process will take. And I certainly don't think that we can anticipate reasonably that it will take place in 19 months. So I think that it's fair to say that there's a very substantial risk that under the new procedures, when the chairman recalls, the words of Thomas Jefferson, when he wrote the second patent law as this nation's first patent commissioner. He said that God himself had placed the invention in the head of the inventor. It's locked up there, and the inventor has no obligation to disclose it to anyone. This society, this nation, he said, must have a system that amply rewards the inventor so as to induce the inventor to disclose. And in exchange for that, he said, the society has an obligation to that inventor to reward him with a guaranteed minimum term. And whether we determine that the minimum term is 14 years, or 20 years or 17 years, Mr. Chairman, I think that Thomas Jefferson is correct: That we save us from the potential adverse consequences of which we have heard with respect to a diminution in that term under this untried procedure into which we are about to move.

With respect to 1733, I think, Mr. Chairman, that it is concerning the other provisions of 1733. REP. MOORHEAD: (?) Do you understand that 1733 is not the originator of the 20-year term? We have that now.

MR. CHANDLER: I understand that, Your Honor, Mr. --

REP. MOORHEAD: (?) [H R] 1733 only makes it more livable.

MR. CHANDLER: Well, I think what 17 -- and my concern with 1733 -- I am fully aware of what we have now under the GATT. I'm concerned, Mr. Chairman, is that portion which calls for 18-month disclosure of all inventions.

month disclosure in Japan or 18-month disclosure in Europe. If I were European, or Japanese, or president of any other country of the world, I would urgently want the United States to place the technologies which they are inventing into the public domain.

And let me observe one other thing, Your Honor -- Mr. Chairman -- this Congress appropriates neetary Reich's study. They were not due to wrongdoing or illegal activity on the part of the Japanese; it was simply exploiting weaknesses in our own laws, one of which of course was the Process Patent Act, which significantly contributed to the loss of the steel industry. Steel companies were before this Congress year after year asking for an amendment to that Process Patent Act, because their technology could be invented here, but it could be taken out of the patent office, moved abroad, manufactured there in direct competition with the steel companies. So that the losses of technology that we have sustained (mightily ?) as a nation have been overwhelmingly significant. And if the Congress wants to We receive more Nobel prizes and more awards for successes, have new inventions in science and technology, than any other nation in the world. And since one member of the panel suggested that we may be stealing from the Japanese, I of their greatness. In the last 55 years, the American people, American inventors, American researchers, have won over 50 percent of the awards and Nobel prizes in sciences and engineering, medicine, microbiology. How many have been won in Japan in the last 55 years? Not one. As the commissioner of Japan's patent office said on a recent visit to the United States, most of their work is a result of improvement patents building on technologies invented in the United States -- it came from Japan. And I think, Mr. Chairman, that if this measure -- these two measures, and the others before the committee, are to be considered in terms of its impact -- their impact upon the people of the United States and the economy of the United States, I would urge the committee to consider the remarks I've made today. Thank you very much.

REP. MOORHEAD: Dr. (inaudible) how does it seem to be here and be the fourteenth and last witness?

So, well, now we have some position from these rather misguided corporate interests. And the reason the position in Japan, the reason the patent system in Japan is so poor is because we have this cultural condition in Japan in which there is a strong relationship between the government and the major corporate entities -- a very strong relationship -- so that the patent system in Japan has been entirely dominated by the viewpoint that they represent. So the Japanese patent system is the worst in the world.

Therefore, if your objective is to weaken or destroy the United States as a viable economic unit, why not start with an agreement between the commissioners of the two patent offices which will tend to bring the United States patent system down to the level of the Japanese system? Now, the Japanese system could benefit from the association if we brought that system up to our level. The systems in Europe could benefit from being brought up to our level. And that may be the most constant

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THURSDAY, NOVEMBER 2, 1995

I appreciate having a serious effort at addressing private interests who provide legislators with vacations, transportation, food and other gifts, often in thinly disguised efforts to curry favor and special treatment. The public is right to be skeptical. Five times this year, we have revised the Rules of the House. And yet in each instance, we have been denied the right to bring lobby and gift reform before the House at the same time. Finally, I am hopeful we will have that opportunity. Some believe the restrictions contained in H. Res. 250 are too stringent, that they will be difficult to enforce, or that they will be inconvenient. I believe they are not that loophole, as H.Res. 250 does, will permit a legislator to accept thousands of dollars in gifts from special interest lobbyists every year. That is not gift reform. That is gift reform "lite."

Let me tell you what will happen. A legislator will accept gifts from a dozen lobbyists in one industry or another -- mining, banking, aviation, whatever -- that could easily total in the thousands of dollars, and yet will be able to present himself or herself as "free members, a legislator will be able to eat night after night courtesy of that interest and yet be within the "gift ban" guidelines of H.Res. 250.

I offer an alternative, one which I follow for myself. No gifts. Despite what you may hear, it is very simple to enforce. Someone gives you a gift; you give it back. If we are going to win back the confidence of a jaded public, I don't think we can afford to use make-believe definitions to say we are something we are not. In effect. That won't work for tuna, and when I see H.Res. 250 allow lobbyists to spend thousands of dollars buttering up a legislator, I smell something fishy in this "gift reform" plan, too.

If we want to be "gift free," let's prohibit skilled lobbyists and this gift reform will prove as ineffective as past efforts.

But there is an attack under way, and it began with an agreement between Commissioner Bruce Lehman (sp) and Commissioner Asu (ph) of the patent office of Japan. And under that agreement the terms are to be changed such that -- and it's a very ingeniously drawn agreement, Mr. Chairman -- it appears on the surface not to change very much. It says 20 years from the date of application instead of 17 years from the date of issue. Nevertheless, it really has the effect of undercutting the intellectual property rights which are granted to the inventor who creates the most significant patents. And my colleagues here on the panel have made that point clearly as they have given you various details on it. So we have that.

Now, having achieved that agreement, what happens next? Is it brought to the American people to be discussed carefully and in detail, this important birthright of their own which goes to the center of our economy? Is it given the attention that it should deserve? No. It was rushed through. It was bundled with GATT. There was no opportunity for the Congress to discuss. Ten days -- up or down. What an extraordinary display.

I discuss this with you, Mr. Chairman, because you are as interested in it as I, and you are aware that in our government errors get corrected. The trends that go against the interests of the people get corrected. And we are seeing a corrective process under way now, because there is increasing awareness around the country that the birthright is being taken away. It is being withdrawn. There are editorials appearing. There is an increasing amount of attention. I assure you, Mr. Chairman, that if these considerations go on, you will see that shown even more fully.

Now, there are a lot of myths that have been brought forward. There's the myth of the submarine patent. It's pretty good rhetoric, the idea that a patent remains submerged, and then it comes to the surface to torpedo industry. My colleagues have helped to explain why that is a myth. And I challenge this subcommittee before it goes into any legislation based on the assumption that there is some serious problem there to identify, to examine in detail specific instances, and to see how many of them there are -- if any at all. I haven't found any, and I have attempted, through the people I know and my friends, to find a submarine patent. I haven't found one that qualifies. If this subcommittee can find any, I think they should tell the American people about it in specific detail, because that myth is now being used as much as the animus for destroying the qualities of intellectual property in this country. And before we

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