

The Big Government Patent Bill

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There are many sophisticated and nuanced reasons to oppose H.R. 1249, the 140-page patent bill currently pending before the House of Representatives, but the clearest reason for opposition can be stated in quite simple and stark terms: The proposed legislation would undeniably expand the size of the federal bureaucracy and increase the cost and complexity of the American patent system.

Patent law is often thought to be a highly technical and obscure area of federal law that only a handful of specialists can comprehend. That reputation, I have always believed, is undeserved, for the basic policies and operations of the patent system are—and historically have always been—relatively straightforward. Nevertheless, it is perhaps because of that reputation for obscurity and technicality that the debate on the currently pending patent legislation has not focused sufficiently on the three fundamental aspects of the bill that any citizen interested in good government can readily understand: First, the bill expressly authorizes growth in the Federal bureaucracy. Second, the bill expressly allows a bureaucratic agency to raise its fees to fuel its own growth. Third, as perhaps the most visible outward sign of its true nature, the legislation is over 140 pages long—more than twice the length of the entire Federal patent statute at the time of its last codification.

Increasing the Size and Complexity of the Federal Bureaucracy

In 1980, just 31 years ago, the entire universe of statutorily authorized proceedings at the Patent Office could be divided into just three simple categories. “Patent examination” was the basic patent application process that covered most applications. An “interference” was just a fancy title for the application process where two or more inventors claimed to be first to invent, and thus the Patent Office had to decide who was first. Third and finally, “reissue and correction” proceedings allowed inventors to remedy certain errors in previously issued patents.

In the past three decades, two entirely new administrative proceedings have been added. “Ex parte reexaminations” were added in 1980 to provide a way for the Patent Office to reexamine issued patents in light of newly discovered prior art. Congress determined that ex parte reexamination had been “ineffective” (as the 1999 House Report stated) but, instead of repealing the ineffective process, Congress added another administrative process—“inter partes reexamination”—designed to do precisely the same thing as “ex parte reexamination” with the exception that the new procedure would be adversarial.

Today, one might fairly question whether the substantial expansion of Patent Office’s bureaucratic proceedings over the past three decades has been a good thing or not, but the pending patent legislation does something truly unprecedented in the history of U.S. patent law. The bill would add three entirely new forms of administrative procedure and, from the existing administrative procedures, it would eliminate ... absolutely none. The new ones are: Post-grant review, supplemental examination, and a special “transitional post-grant review proceeding for review of the validity of covered business-method patents.” In short, this new bill provides a monumental expansion of the bureaucratic processes at the Patent Office. Even the last three decades—which, in terms of historical precedent, have seen extraordinary inflation in bureaucratic processes at the Patent Office—are outdone by this single bill.

Worse still, the complexity does not end with just the creation of three new proceedings. Two of the old proceedings are renamed and the statutes governing them are substantially re-written. Interferences become “derivation proceedings,” and “inter partes reexamination” is changed to “inter partes review.” In the former case, the change is at least understandable in terms of an important substantive change in the law: Interferences are used to determine the priority of inventorship, which is

the key to assigning patent rights in a first-to-invent system. Since the legislation changes the U.S. to a first-to-file system, interferences would slowly become obsolete. But the old administrative process does not vanish entirely, because second-to-file inventors can still allege that the first-to-file inventor “derived” the invention from the later filer.

Yet if the change from interferences to deviation proceedings is somewhat understandable, the other change—from inter partes “reexamination” to inter partes “review”—is nothing short of byzantine. The bill already proposes adding an entirely new proceeding of “post grant review” to the statute, plus a special post-grant review just for business method patents. And the old ex parte reexamination procedure remains largely unchanged. In light of all these other procedures, is this really the optimal time for Congress to rewrite (but not eliminate or consolidate) one of the existing sets of procedures?

Nor is this merely a name change. The bill entirely re-writes the pre-existing law governing inter partes reexamination. Even though such changes do not add wholly new proceedings, they do significantly increase complexity because, during a transition period that could last a decade or more, the agency and the lawyers practicing before it will have to keep track of the old procedures (with their old governing statutes and regulations) as well as the new procedures (which will have different governing statutes and regulations). Thus, if this bill were to be enacted, the Patent Office will have to maintain, during a years-long transition period, the following set of administrative procedures: (i) examination; (ii) interferences; (iii) reissue and correction; (iv) ex parte re-examination; (v) inter partes re-examination; (vi) inter partes review; (vii) post-grant review; (viii) derivation proceedings; (ix) supplemental examination; and (x) the “transitional post-grant review proceeding for review of the validity of covered business-method patents” (more on this last one later).

The overlapping complexity of all these procedures is confirmed by the *multiple* sections in the bill trying to deal with the problem of “Multiple Proceedings.” The first such provision, on page 45 of the bill, reads:

“(d) MULTIPLE PROCEEDINGS.—Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of an inter partes review, if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the inter partes review or other proceeding or matter may proceed, including providing for stay, transfer, consolidation, or termination of any such matter or proceeding.”

This provision has a nearly-identical, but maddeningly *not-quite-identical* twin located on page 60 of the bill. The very existence of these provisions should, one would hope, provide a kind of natural red flag to Members of Congress who have an interest in streamlining government: If any proposed legislation needs multiple provisions to deal with multiple bureaucratic proceedings involving the same subject matter, might it be possible that the bill authorizes too many forms of bureaucratic proceedings? Moreover, isn’t an obvious cause for concern that the legislation’s solution these multiple overlapping bureaucratic proceedings is just to delegate the whole matter to the Director of the agency, with little more than an authorization that he “may determine the manner in which [the proceedings] may proceed”? To quote such provisions should be enough to condemn them. It does not take a physics degree or expertise in patent law to recognize legislation that is bloating the federal bureaucracy.

Increasing the Cost of the Federal Bureaucracy

Increasing the size and complexity of a government bureaucracy also increases its cost, and thus typically any government agency seeking to enlarge itself needs to figure out a way to increase its congressional appropriation of funds. Since a larger appropriation for one agency means that Congress will be faced with the politically difficult choice to cut elsewhere, raise revenues, or increase debt, the

appropriations process imposes an important and fundamental (if not always effective) brake on bureaucratic growth.

The increased bureaucratic complexity authorized throughout the patent legislation is no exception to the general rule that more bureaucracy means more costly government, and so the proposed legislation includes a simple mechanism for funding the inflation of the patent bureaucracy: The bill allows the Patent Office to raise more revenue *by increasing its own fees without congressional approval*.

Make no mistake about it: The grant of “fee setting authority” (as it is named in the bill) is a significant structural change that is designed to allow the Patent Office to raise fees as high as necessary to pay for the costly new bureaucratic processes being authorized in the bill. True, the legislation requires that the agency to raise fees “only to recover the aggregate estimated costs” of the agency bureaucracy, but that limitation—if it can be called that—means merely that the inflation of fees will track the inflation of the bureaucracy. It will do nothing to check the growth of the bureaucracy.

Because of the controversy surrounding the fee setting provisions, supporters of the bill have very, very recently proposed an amendment that, while retaining the agency’s power to increase fees, would require the agency to go through the appropriations process in order to spend the money collected through its increased fees. (See Patent-Fee Compromise Doesn’t Ensure Passage, National Journal, June 22, 2011 (<http://www.nationaljournal.com/daily/patent-fee-compromise-doesn-t-ensure-passage-20110621>)). This supposed “compromise” is no compromise at all because it retains the root problem that the agency makes the decision to raise its own fees. Once the fees have been raised, congressional appropriations committees will be faced with the choice of either allowing the agency to keep the money or diverting the money elsewhere. The later choice—diverting the fees elsewhere—will surely meet with enormous opposition from inventors who, having paid inflated fees supposedly to fund the patent system, will rightly not want to see the money being diverted elsewhere. Indeed, the appropriation committees may not even have that choice, unpalatable as it may be. Representative Lamar Smith, the chief House sponsor of the bill, has reportedly assured inventors that the amendment would still “preserve all PTO fees for the agency.” Thus, appropriations committees will have the choice of allowing the agency to spend what it has collected or having the funds go unspent. Even if one were naïve enough to believe that government routinely has the restraint to forego spending available funds, that belief would still not change the reality that the proposed legislation utterly removes a traditional restraint on the growth of government and replaces it with a novel mechanism designed to facilitate increasing this agency’s budget.

Increasing the Size of Federal Statutory Law: Complexity and Special Interest Deals

The last time that Congress re-codified the *entirety* of U.S. patent law, the resulting act—the famous and still in force Patent Act of 1952—occupied only 24 pages in the U.S. Statutes at Large. As a piece of pending legislation (with a printing format using fewer lines of text per page), that bill had been only 33 pages long. The modern format for printing pending bills uses fewer lines per page and slightly more generous margins than had been used in 1952, with the result being that modern format roughly doubles page counts. Thus, if the modern format were to be used, the 1952 codification of all U.S. patent law would occupy about 66 pages of text. The currently pending legislation is *more than twice that length*, and it is just an *amendment*, not an entire re-codification of the patent laws.

It might be tempting to think that the legislation’s length is merely an indicator of its importance, but that is clearly wrong. The Civil Rights Act of 1964 which, among other things, secured voting rights, desegregated public facilities, prohibited employment private employment discrimination, and created the EEOC, was 28 pages long. The 1935 National Labor Relations Act, which created the National Labor Relations Board and created a comprehensive system for regulating labor-management relations in the country, was 9 pages. The historic Clean Air Act, passed in 1963, was 10 pages. And, of course as already mentioned, the Patent Act of 1952 was a mere 24 statutory pages.

Prior to the past three decades, reasonably concise legislation had been the tradition in our country: The Patent Act of 1836 was 9 pages long; the comprehensive recodification of 1870 was 20 pages (and it covered some trademark and copyright issues too). True, this tradition has been deteriorating in the last few decades, and the 140-page patent reform legislation looks positively puny when compared to the 904-page “Patient Protection and Affordable Care Act” of 2010 (which was over 2400 pages when printed in the format of a pending bill). Still, it might have been hoped that a new House majority, many Members of which were elected on platforms pledging to curtail the size of government, would not be eager to use last year’s health care legislation as a precedent for justifying their own work.

Legal complexity, rather than importance, is the better explanation for the length of the patent legislation, but favors for special interest groups also help to bloat the bill. Consider, for example, section 24 of the bill, which provides a nice illustration both of a favor for a special interest and of the forces creating the bill’s legal complexity. Section 24, entitled “Designation of Detroit satellite office,” comes immediately after section 23, which authorizes the Patent Office to “establish 3 or more satellite offices in the United States to carry out the responsibilities of the Office.” Section 23 has several provisions detailing how these new locations shall be selected, and it steadfastly promises an “open selection process” in which the Patent Office is not “constrain[ed] ... to only consider its [prior] evaluations in selecting the Detroit, Michigan, satellite office.” Reading section 23, one might think that, although the Patent Office had previously announced that it would select Detroit as a satellite office location (and the plans to open such an office had to be cancelled to save money), the new process for selecting satellite offices would be “open” and would not necessarily mean that Detroit would get its office. Right?

Section 24 then provides: “The satellite office of the United States Patent and Trademark Office to be located in Detroit, Michigan, shall be known and designated as the ‘Elijah J. McCoy United States Patent and Trademark Office.’” Note the name. That’s the great African-American inventor Elijah McCoy, whose improved lubrication system was so famous that it gave rise to the expression, first among railroad engineers and later in the general public, of “the real McCoy,” meaning the genuine article. The result of the interplay between section 23 and 24 is wonderfully rich legal complexity—really, a legal doublethink George Orwell could admire: The process of selecting new satellite locations is guaranteed by law to “open,” but the real McCoy is already required by law “to be located in Detroit, Michigan.”

Why Detroit? Michigan is a political swing state, struggling with one of highest unemployment rates in the country (see <http://www.bls.gov/web/laus/laumstrk.htm>). The powerful senior Senator from Michigan, Democrat Carl Levin, already took credit for snagging the satellite office when the Patent Office had previously said that it would open a Detroit satellite office (see <http://www.pressandguide.com/articles/2010/12/21/opinion/doc4d10f015a5fec944096457.txt>). He has also shared credit, by name, with the then Michigan Governor Jennifer Granholm, Michigan Senator Debbie Stabenow, and Michigan Congressman John Dingell, all of whom (as Levin’s news release reminds the reader) are affiliated with the Democratic Party (see <http://levin.senate.gov/newsroom/press/release/levin-stabenow-dingell-hail-us-patent-and-trademark-offices-selection-of-detroit-for-its-first-satellite-office>). It could not have been welcome news to these prominent politicians when, after their press releases, the Patent Office had to announce that, because of budgetary constraints and as part of an effort “to do more with less,” the Office was indefinitely postponing the opening a Detroit satellite office. See http://www.uspto.gov/blog/director/entry/an_update_on_the_uspto. The pending legislation will remove those budgetary constraints, and thus put the Detroit satellite office back on track. Of course, the elected politicians of Michigan will strongly contend that Detroit won its satellite office on the merits, because Michigan is “home to many innovative companies and research partnerships” (<http://levin.senate.gov/newsroom/press/release/levin-stabenow-dingell-hail-us-patent-and-trademark-offices-selection-of-detroit-for-its-first-satellite-office>), but it hard to resist the suspicion that the Detroit satellite office is indeed a real McCoy—the real McCoy of pork barrel politics.

Section 18 of bill is another example of special interests. In five pages of complex legislation, including particularized definitions gerrymandered to cover certain specific patents, § 18 establishes a unique administrative procedure—a “transitional post-grant review proceeding”—for reviewing the validity of certain “covered business method patents.” Here, the political forces behind this section have been widely reported: In the article “Banks Turn to Schumer on Patents” (<http://www.nytimes.com/2011/06/15/business/15schumer.html>), the New York Times credits Senator Charles Schumer, D-NY, with “insert[ing] into a patent overhaul bill” this section, and Schumer happily accepts responsibility, noting that this is a manifestation of his “support” for “New York institutions.”

Provisions such as section 24 and 18 in the patent legislation should be give pause to any Member of Congress who has publicly pledged to resist the march of special interest legislation, but the provisions should raise special concern for members of the majority of the House of Representatives: Can it really be the case that the majority’s commitment to smaller, more economical government is so weak that it will be abandoned merely as a favor to powerful Democratic Senators?

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In the final analysis, Members of the House of Representatives and their staffs—even those, perhaps especially those, having no specialized knowledge of patent law—can and should decide their position on this piece of legislation by asking themselves a simple, fundamental question: Should Congress be enacting massive new legislation to increase the size, complexity and cost of the Federal Government’s bureaucracy?

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