September 23, 2014

Via Electronic Mail: innovationstrategy@ostp.gov

Mr. Dan Correa
Office of Science and Technology Policy
Eisenhower Executive Office Building,
1650 Pennsylvania Ave N.W.
Washington, D.C. 20504

Re: Comments Regarding Strategy for American Innovation

Dear Mr. Correa:

I am writing on behalf of the American Bar Association Section of Intellectual Property Law (the “Section”) to provide comments regarding the development of an updated Strategy for American Innovation. These comments have not been approved by the American Bar Association’s House of Delegates or Board of Governors and should not be considered to be views of the American Bar Association.

The Section appreciates the opportunity to comment on the Administration’s policy initiatives, and strongly supports the Administration’s efforts to promote lasting economic growth and competitiveness through policies that support transformative American innovation. Accordingly, the Section provides the following comments on questions 2, and 21-23.
(2) What are the biggest challenges to, and opportunities for, innovation in the United States that will generate long-term economic growth, increased productivity, sustained leadership in knowledge-intensive sectors, job creation, entrepreneurship, and rising standards of living for more Americans?

A. Support for Pro Bono Legal Services for Small Businesses

The Section supports the continuation and expansion of programs to reach out to the small inventor community, including the America Invents Act Pro Bono Advisory Council1. This should include consideration of providing federally-sponsored malpractice insurance to attorneys without their own coverage who want to participate in providing pro bono services. A study directed to the appropriateness of the current pro bono income requirements and a determination as to whether raising of the threshold annual income is warranted.

Support for this recommendation is based upon the following research. In 2011, there were 28.2 million small businesses, and 17,700 firms with 500 employees or more. In particular, small businesses make up:

- 99.7 percent of U.S. employer firms;
- 63 percent of net new private-sector jobs;
- 48.5 percent of private-sector employment;
- 42 percent of private-sector payroll;
- 46 percent of private-sector output;
- 37 percent of high-tech employment;
- 98 percent of firms exporting goods; and
- 33 percent of exporting value.2

Of high patenting firms (15 or more patents in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms.3 Research also shows that increasing the number of employees correlates with increased innovation while increasing sales does not.4 While the number of new employer businesses has recovered from the recessionary dip, the average employment of these businesses has been declining over the past decade.5

A state’s stock of patents proxies for the state’s ability to innovate new products and production techniques that could give it an economic edge and lead to higher relative per capita personal

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1 By an executive decision led by Robert O. Lindefeld, Immediate Past Chair of the Section, and approved by the ABA Board of Governors, the Section participated in the signing of a Charter founding the America Invents Act Pro Bono Advisory Council in the Chambers of Randall R. Rader, Chief Judge of the Court of Appeals for the Federal Circuit, on October 25, 2013.
2 http://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf
3 Id.
4 Id.
5 Id.
incomes. A state with a larger stock of patents is presumed to be more innovative in creating new products and production techniques.

Congress has noticed the disparity of patent-protection accessibility between large and small companies. In particular, Section 32 of the America Invents Act encourages the USPTO to “work with and support intellectual property law associations across the country in the establishment of pro bono programs designed to assist financially under-resourced independent inventors and small businesses.” Accordingly, the USPTO has implemented patent pro bono programs in twenty states. However, acceptance into a regional pro bono program requires each potential pro bono client to be screened for certain criteria.

Accordingly, the Section recommends that the Administration consider providing federally-sponsored malpractice insurance to attorneys without their own coverage who want to participate in providing pro bono services, and conducting a study directed to the appropriateness of the current pro bono income requirements and a determination as to whether raising of the threshold annual income is warranted.

B. Maintain Integrity of Confidential Business Information During Regulatory Proceedings

The growing fluidity and interconnectedness of domestic and global electronic information networks can allow state, federal, and international regulatory bodies to obtain, and, where legally authorized, share, confidential business information provided by regulated entities in support of environmental, energy, health, safety, and financial regulatory efforts. The Section recommends that the updated strategy also reinforce the need for continued diligence by regulatory agencies to establish, maintain, and update programs to protect confidential business information submitted during regulatory proceedings from improper appropriation or disclosure and in this way avoid a business threat that could discourage or undermine market innovation.

7 Id.
8 United States House of Representatives, Committee on the Judiciary, Committee Report, America Invents Act, H.R. Rep. No. 112-98 pt. 1, p.56 (2011) (“The Committee acknowledges the importance of individuals and small businesses to the patent system and our national culture of innovation. Consistent with this sentiment, the Act requires the USPTO Director to support intellectual property law associations across the United States to establish pro bono programs to assist under-resourced independent inventors and businesses.”).
9 See USPTO, Pro Bono, http://www.uspto.gov/inventors/proseprobono/, (Last Modified: 5/16/2014 1:19:57 PM); USPTO, Legal Assistance Programs for Independent Inventors, http://www.uspto.gov/inventors/proseprobono/ProBono_Transcript.docx, (Last Modified: 5/16/2014 1:19:57 PM) (“After the America Invents Act passed in 2011, the USPTO began working with intellectual property law associations across the country to help them establish pro bono inventor assistance programs in their specific regions.”)
10 Id.
Question 21: What new challenges and opportunities for intellectual property and competition policy are posed by the increasing diversity of models of innovation (including, e.g., through the growing use of open innovation, combinatorial innovation, user innovation, internet-enabled innovation, and big data-driven innovation)?

A. Patent Office Funding

The Section recommends the enactment of legislation that permanently provides that all fees collected from patent operations shall be available to fund those operations without any diversions. Such legislation should provide that any Congressional oversight of the USPTO budget should not involve any escrowing of such fund to match any across the board budget cuts and manpower ceilings imposed on the general operations of federal government.

B. Eligibility of Software-Implemented Inventions

The Section is concerned with the fact that the Patent Office is assessing whether many software-implemented inventions are patent-eligible or patent-ineligible without any significant analysis. The Supreme Court of the United States recently rendered a fact-specific decision deeming claims directed to the abstract idea of “intermediated settlement” to be patent-ineligible. *Alice Corporation Ply. Ltd. v. CLS Bank Intl., et al.* The *Alice* decision was not meant to conclude that all software-implemented inventions are patent-ineligible, yet the Patent Office appears to be applying the decision broadly to many software and even machine-implemented inventions.

Although *Alice* provides several examples where a claim was directed to an “abstract idea,” the decision did not outline a concrete test for identifying an “abstract idea.” In this regard, *Alice* is limited in scope. The Section recognizes that the absence of a clear-cut test will present difficulties for the Patent Examining Corps as they attempt to identify whether a claim is directed to an “abstract idea.” Nevertheless, *Alice* is not without bounds, and does provide some important guidance. In finding that the concept of intermediated settlement is an abstract idea, the Court relied on the existing evidence in determining that intermediated settlement is “a fundamental economic practice long prevalent in our system of commerce.” *Alice*, slip op. at 9. Further, it is well established that findings of fact made by the Office must be supported by substantial evidence. *In re Gartside*, 203 F.3d 1305, 1316 (Fed. Cir. 2000).

Accordingly, to the extent that an examiner determines that a claim is directed to an abstract idea that is a “fundamental economic practice,” an “idea itself,” or a “mathematical relationship/formula,” the examiner must support such a finding with existing evidence that is supported by a clear showing on the record. As such, the Section cautions the Office to instruct Examiners to avoid simply stating that a claim is directed to a “fundamental economic principle,” an “idea itself,” or a “mathematical relationship/formula” and is therefore directed to an abstract idea, without also providing examples, supported by substantial evidence, demonstrating that the claimed subject matter is indeed “[a] principle, in the abstract, [ ] a
fundamental truth; an original cause; a motive….” See Alice, slip op. at 9 quoting Le Roy v. Tatham, 14 How. 156, 175 (1853).

After determining whether a claim is directed to an abstract idea, Alice provide a second step to determine whether a claim is directed to something “significantly more” than an abstract idea itself to be a patent-eligible invention. Alice, slip op. at 6. Alice went into detail with respect to the second step, and used the example of “a computerized method for using a mathematical formula to adjust alarm limits for certain operating conditions” in Parker v. Flook, 437 U. S. 584 (1978), as not being patent-eligible, whereas the use of “a ‘thermocouple’ to record constant temperature measurements inside the rubber mold” in combination with a computer algorithm in Diamond v. Diehr, 450 U. S. 175 (1981); did satisfy Part 2. Alice, slip op. at 8, 12-13.

The Section is working with the Patent Office to ensure that examiners clearly understand the boundaries of Alice, such that the decision does not swallow all of patent law. Slip. op. at 6. Software-implemented patents are critical to American innovation, as small start-up companies and large companies alike rely on the patent system to obtain investment and recoup research expenses. The Section further recognizes the public perception that the patent system is a drag on innovation, but this is largely due to misunderstandings of the prevalence of litigation, how to read a patent, and the unfortunate term “patent troll.” Patent litigation will always increase during periods of significant innovation such as now. The Section will continue to educate the public on these issues, and would appreciate the administration’s continued support of the patent system by increasing patent clarity, but also would like the administration to make clear that software patents promote innovation and are therefore patent-eligible as they “promote the Progress of Science and useful Arts.” U.S. Const. Article I, Section 8, Clause 8.

C. Additional Suggestions

The Section recommends the creation and maintenance of a function within the USPTO to continually monitor the operation of patent and trademark operations in other countries and by international agencies for concepts that could improve operations of the USPTO.

The Section recommends that selection of judges to serve on the Court of Appeals for the Federal Circuit such that at least some members have practical experience in patent law.

The Section is in favor of the expansion of a federal program to assign patent litigation to U.S. district court judges with a particular interest in handling such litigation.

The Section recommends a careful review of the information made available to the public and particularly small businesses on their rights and obligations with regard to the U.S. patent system. It is suggested that this include a fair and balanced review of the “Patent Litigation Online Toolkit” currently on the USPTO website, and consideration of enhancing the information made available on the litigation of specific patents currently made available by the
USPTO in the PAIR system, perhaps to providing a searchable database of patents in litigation and the status of the litigation.

The Section recommends conducting a study of whether to recommend to the states that they amend their UCC laws to make the warranty of non-infringement provided by Uniform Commercial Code Section 2-312(3) non-waivable or to at least require that any waiver be as explicit as the waivers of merchantability and fitness for a particular purpose and to explicitly expand the warranty to the expected normal and customary use of goods sold by a merchant. It is believed that there is an important public policy question as to whether merchants and manufacturers should be able to put goods they designed into the stream of commerce and yet escape any responsibility for defending their customers from charges of patent infringement for using those goods in the manner the merchants contemplated or even instructed.

The Section recommends the creation of a certification program through a government body for technical advisors that can be made available to the U.S. district courts for the handling of patent litigation.

(22) What are specific areas where a greater capacity for experimentation in law, policy, and regulation at the Federal level is likely to have large benefits? Are there useful models of experimental platforms in the public or private sectors that the Federal Government can adopt? How might the Federal Government encourage state and local experimentation?

One of the challenges faced by the Federal Government is the lack of flexibility it has with respect to issues that are fundamental to the private sector. As such, changes which not only encourage but mandate flexibility typically will provide the greatest benefit. Currently, the Federal Government is at a crossroads for its procurements whereby there is a decrease in competition matched by an increase in regulations. In order to overcome these issues, the Federal Government needs to increase the use of innovative acquisition mechanisms which provide more options to increase industry participation in Federal research and development options, and especially to tap into the commercial research and development efforts. Therefore, the Federal Government should use tools which are more compatible with such efforts, including greater emphasis on commercial item acquisitions under FAR Part 12 as well as using underutilized agreements such as Other Transaction Authorities, such as 10 USC 2371 for Department of Defense. In short, and as similarly noted by the Defense Business Board in its briefing entitled "Innovation Attracting and Retaining the Best of the Private Sector", the Federal Government already has most of the tools it needs to increase industry participation in Federal Government procurements and research activities, but it needs to experiment more in ensuring that these tools are used.

Examples of successful efforts, both ARPA-E and DARPA both use non-FAR based agreements to obtain wider industry participation. Both are highly successful based largely in part to this usage of non-traditional procurement mechanisms for obtaining industry participation, including
use of Other Transactions (or its related form of a Technology Investment Agreement). However, these models have not translated into procurement commands, who conduct large research and development projects while trying to use agreements which are incompatible with private industry (i.e., using FAR Part 15 acquisitions). The Under Secretary of Defense for Acquisition, Technology, and Logistics has attempted to use the limited flexibility allowed under FAR Part 15 regulations to obtain greater industry participation using Open Systems concepts, but such efforts are likely to fail so long as the fundamental acquisition model is adverse to private industry expectations. By combining the Open Systems concepts with commercial items simplicity and non-traditional agreements already used by ARPA-E and DARPA, there is a greater likelihood of obtaining maximum participation by the private sector to stimulate technology transfer with minimal changes in existing law.

(23) Beyond current Federal efforts to promote open data and open application programming interfaces (APIs), what other opportunities exist to open up access to Federal assets (such as data, tools, equipment, facilities, and intellectual property from Federally-funded research) in order to spark private sector innovation?

While the efforts to open up data exist, the problem faced by private industry is the vast majority of it remains restricted. For reasons ranging from export regulations to restricted licenses, the existing data sets available to the public through such portals as data.gov or through Defense Technical Information Center (DTIC) are only those which are both cleared for export and are unlimited rights data. Moreover, the portals themselves lack the user-friendly interfaces which would allow a researcher to simply, and easily, access the appropriate data in the same manner a purchaser can find the same data using online stores such as Amazon® or iTunes®. Such a search interface should have clear and simple mechanisms for obtaining such data. These interfaces are currently lacking.

Further, Cooperative Research and Development Agreements (CRADAs) under 15 USC 3710a are a popular way to access Federal research, personnel, and facilities. Of particular benefit to private industry are IP protections which are unusual and encourage the use of Federal research. However, 15 USC 3710a has a limitation which is harmful to such cooperation in that it only will protect results from the CRADA research and development activities for five (5) years after development. Such a limitation is too short for certain industries to successfully commercialize the results of such CRADA research, which therefore works as a disincentive to commercializing Federal Government research and development using a CRADA. As such, in order to provide maximum flexibility to the Federal Laboratories to work with the largest number of private sector entities, 15 USC 3710a should be changed to allow the Federal Laboratory to extend this 5 year data protection to a time frame which more closely matches the commercialization expectation of the private party to the CRADA, and to confirm that such research results would not be used in competition with the private party during this timeframe.
In conclusion, the Section of Intellectual Property Law appreciates the opportunity to provide these comments to the Office of Science and Technology Policy. If you have any questions on the above comments please feel free to contact us.

Very truly yours,

Lisa A. Dunner  
Section Chair  
American Bar Association  
Section of Intellectual Property Law