

Office of Advocacy

**TESTIMONY OF  
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OFFICE OF ADVOCACY  
UNITED STATES SMALL BUSINESS ADMINISTRATION  
SUBMITTED TO THE SUBCOMMITTEE ON ENERGY AND ENVIRONMENT  
OF THE COMMITTEE ON SCIENCE  
OF THE HOUSE OF REPRESENTATIVES  
MAY 2, 1996**

Mr. Chairman and members of the Subcommittee: It is a pleasure for me to testify today before your subcommittee on the subject of "Changes in U.S. Patent Policy and Their Implications for Energy and Environment Research and Development."

I would like to come right to the heart of the issues before your subcommittee and before Congress on the proposed changes in the patent law as envisioned in H.R. 359, H.R. 1732 and H.R. 1733. Those issues are:

1. Term, and certainty of the length of the term, of the patent protection,
2. Confidentiality of the intellectual property until patent protection is provided,
3. Ensuring that small businesses are not disadvantaged by confrontational processes with much larger firms (U.S. and foreign) with disproportionately larger resources.

These issues are vital to small businesses and we appreciate the concern of your subcommittee in protecting the interests of small businesses.

The summary comments of the Office of Advocacy are included in the attached letter from the Chief Counsel to the Subcommittee Chair and to the Speaker of the House of Representatives, dated April 18, 1996. Specifically:

We oppose the pre-publication provisions of H.R. 1733.

We oppose the expanded intervention provisions of H.R. 1732.

We support the expanded term provisions of H.R. 359.

We have heard the arguments that a confrontational process at the front end of the patent process will result in more robust patents. The argument is that permitting all companies, large and small, to comment on all patent applications, from all companies, large and small, will result in fewer court cases after patents issue. We would agree with the conclusions--however, not because the patents will be more robust, but because small businesses will not be around to have the protection of the courts.

If the patent application is published before the patent is granted, the applicant will be subjected to competitive pressures before the protection of the patent is provided. What is now a private and privileged relationship between the applicant and the U.S. Patent and Trademark Office (USPTO) will become a free-for-all in the marketplace. And the small business would be entering a David and Goliath contest--without a sling.

With early publication, large companies would look at all of the patents pending, and would file reams of "prior art" to slow down the process. Even if the USPTO ignored them, the large companies would engage in predatory practices and claims against the small company before it has the protection of the patent, and has been able to interest a venture capital investor or other company in joining forces. Without the resources to fight the legal battles with the large company, the entrepreneur will be forced to accede to their demands or would be forced out of business. I'd like to point out that such predatory practices are not only legal, they are in the best interests of the shareholders of the large companies. Anyone that protests that such practices do not occur is either very naive or disingenuous.

With publication at 18 months, and the average pendency of small business patents of over 21 months, we would see the death of the innovative small companies that have been the pride of the United States for over 200 years. This is not an overstatement, we believe it is a fact. And it is supported by every small business organization we know.

However, we believe that there is a way to address the desires of the large companies, and their very able advocates in the legal profession. They wish to have all patents published after 18 months, regardless of the time it takes to process the patent. We interpose no objection to that rule being applied to all large businesses, and to foreign companies filing for U.S. patents. We merely offer that patent applications filed by small entities, especially small businesses (as currently defined in patent legislation and regulations) be exempted from publication until the patent is issued, or a period of 60 months from the date of filing has passed as proposed in H.R. 359. Applications withdrawn by the applicant would not be published.

Further, for those small entities and small businesses that file for foreign patent protection, we recommend that they be required to publish in the United States the same information (in English) that is published in the foreign jurisdiction whenever publication is required in that country. They would not be required to publish their U.S. patent application, only the application in the country of publication.

We believe that these proposals will ensure the elimination of the "submarine" patents, whether real or imagined, for all practical purposes. They ensure protection of diligent small business applicants, provide equal access to published information for U.S. companies compared to their foreign competitors, and ensure that all patent applications would be published five years after filing. We believe that these proposals provide reasonable balances between the protection for the small businesses and the global interests of larger businesses.

Lastly, we support the creative idea provided by the U.S. Patent and Trademark Office (USPTO) to resolve the issue of the 17-year term from grant versus the 20-year term from filing. Their concept of establishing a 24 month maximum cumulative processing time for the USPTO would ensure that diligent applicants had a 17-year term. The extension would be automatic on a day-for-day basis for any period of cumulative processing time at the USPTO over 24 months. This proposal solves the current limitations of the 17-year term from grant which permits a dilatory applicant to extend the patent protection unfairly.

Small businesses view the process of obtaining patent protection in an entirely different way than large businesses. To provide a perspective of this statement, let me note for the record that I spent over 27 years of my career in small companies, ten of those as CEO of my own very successful defense electronics company. And we had patents. Then I spent ten years running divisions for a defense electronics giant. And we had portfolios of patents at every division. I have also been involved as a member of the venture capital (VC) community as investor and advisor to Small Business Investment Companies (SBICs) and other VC firms. Therefore, I bring first-hand knowledge of the business practices and concerns of both large and small businesses, and of their investors.

To a small business, the patent provides the leverage to enter into a market where large businesses have all of the advantage-- except for that all important patent. To a large business, adding patents to the already existing portfolio of patents and trade secrets is one of many tools in the fight for market share on a global basis.

In other words, to the small business person, the patent is viewed as a vital singular event to allow the company to pursue the particular product developed through the genius of the inventor. That is one of the reasons that small businesses are so extraordinarily successful at bringing significant new products to market. The inventor is often the leader of the business, and bringing the product to market becomes an all-consuming passion. Without a patent, the inventor is merely another bright entrepreneur with an interesting idea, but no barrier to entry for competitors. This is of little interest to the venture capital community. But, with a patent, the product and company are much more interesting to the VCs. Now they are willing to consider investing in the company, and once involved, they are willing to assist in protecting their investment from competitors, large and small.

As requested, I have addressed my comments today on the impact of patent law changes on small businesses in the three issues raised in the Hearing Charter:

1. How will patent law changes affect patents generated by energy and environmental research at federal facilities?
2. Will patent law changes help or hurt future energy and environmental technology development by small entity inventors?
3. Will patent law change help or hurt U.S. efforts to gain a large share of energy and environmental technology export markets?

I have focused today on the small business issues for two reasons:

1. That is our charter, and the area where we have received comments from the trade associations.

2. The large companies, intellectual properties attorneys and their associations, and multi-national firms have an entirely different perspective on patents, and I respect their right to advocate their own issues. It would be as inappropriate for me to comment on what is good for them, as I feel it is for them to tell you what is good for small business.

Let me state unequivocally that patents are vital to the process of innovation by small businesses in the energy and environmental technologies. (And for that matter, in every other field of technology and innovation.) In no other country in the world does innovation flourish as frequently or successfully as it does in the United States. The nation's success in innovation is in large part facilitated by the U.S. patent system.

A recent study of "Foreign Patenting Behavior of Small and Large Firms" contracted by the Office of Advocacy reported that large firms file international patents on almost one-half of their inventions. In contrast, small firms, with equally significant inventions, file slightly more than two-thirds of their patents only in the U.S. As concluded in the summary of the report:

"This suggests that small businesses with valuable inventions face special barriers in obtaining foreign patent protection because of their limited resources."

This study provides additional details on the behavior of large and small firms patents in various technology sectors, including the energy and environmental areas.

We believe that protection of the intellectual properties of small businesses via patents, copyrights and trademarks (as well as trade secrets), is a fundamental cornerstone of the economic well-being of the United States of America. The patent system in America has served this country and our small businesses well for over 200 years.

As envisioned by our nation's founders, patents encourage the introduction of new technologies into the marketplace--and we've seen wonderful new innovations introduced in the environmental and energy fields from small businesses, including as detailed in the latest Annual Report of the President on Small Business:

- Air Conditioning
- Catalytic Petroleum Cracking Heat Sensor
- Microprocessor
- Personal Computer
- Prestressed Concrete
- Prefabricated Housing
- Rotary Oil Drilling Bit
- Stereoscope Map Scanner
- Supercomputer

and literally thousands more. As noted in this annual report, small firms produce twice as many product innovations per employee as large firms--in every field of technology. They also produce twice as many significant innovations per employee as large firms. With small companies having slightly over half of the total employment in the private sector, this is an important difference to our nation.

To the small company, almost always starved for cash, the patent provides a guarantee that the U.S. Government will provide an exclusive right to the company to pursue the market. That pursuit may take the path of direct marketing, or of licensing to larger

companies. But the important issue before you now, is that the path selected is the choice of the inventor--TODAY.

The patent process is so critical to small businesses, to the innovative process of the United States, and to our global competitiveness, that our basic position on these issues is that we should err on the side of protecting the inventor. Given this track record, changes to the patent laws should only be made where there is a well defined problem to cure and where the remedies selected cure the problem without dampening the inventive spirit of the nation's innovators.

We've had a process of patents and innovation in the United States for over 200 years, and the details have not changed for over 133 years. It has produced an engine of creativity that is the envy of the world.

The delegates to the 1995 White House Conference on Small Business passed two recommendations on this topic as follows:

Recommendation Number 115: "...We further recommend that Congress protect international patent rights in a way that takes into account the needs of small business, including retaining the patent term to run for twenty years from date of application or seventeen years from date of issue, whichever is longer, that patent application remain unpublished until the patent is granted, and that the patent remains with the first to invent rather than the first to file."

Recommendation Number 265: "...Congress and the U.S. Patent Office should also implement an enforceable and universal intellectual property (patent, trademark, and copyright) application with all members of the World Trade Organization, while maintaining "first to invent...."

With the foregoing as background, we offer the following comments on the referenced bills:

Pre-publication: We are concerned that the provision of H.R. 1733 to require publication of the patent application 18 months after filing would be detrimental to small businesses. Since the patents for most small firms do not issue until well after the 18-month period, publication of the application before the patent issued would facilitate interference by the patent applicant's competition during this critical and vulnerable stage. This would have negative impacts on the ability of small companies to provide creative and innovative solutions to the energy and environmental (and all other) technology markets. This would also limit their ability to gain larger shares of the export markets. We therefore oppose pre-publication of applications by small businesses.

This pre-publication provision would have a negative impact on the research conducted at federal laboratories in all technology areas, including energy and the environment, since much of the advanced work is performed by small companies as reported by GAO.

Third Party Intervention: The expanded third party intervention provisions of H.R. 1732 and H.R. 1733 would place small businesses at a serious disadvantage as follows:

H.R. 1732: Affording third parties opportunity for greater participation in reexamination proceedings,

H.R. 1733: Affording third parties opportunity under the pre-publication provisions to file comments and opposition to grant.

Together, the greatly expanded intervention procedures of these two bills would have serious negative impacts on the ability of small businesses to contribute to the innovation process of the United States, in all technology fields, including the energy and environment technologies. It would also impact negatively on the ability of small businesses to gain a larger share of the energy and environmental (and all other) technology export markets. We therefore oppose these expanded intervention provisions.

These enhanced intervention provisions would have a negative impact on the research conducted at federal laboratories in all technology areas, including energy and the environment, for the reasons stated above.

Patent Term: The provisions of H.R. 359 that require the patent coverage be the longer of 20 years from date of filing or 17 years from the date of issue are beneficial to small businesses. As a general rule, the length of time for a patent is of critical importance to small businesses, and they prefer the longest possible period of coverage for the patents. We therefore support the expanded term provisions in H.R. 359.

We believe that inventions subject to secrecy orders by the U.S. Government should not have any limitation on the extension of their term, but should have a term that extends for 20 years from the date of release of the secrecy order.

The position of this office is based on:

1. The recommendations of, and communications with, delegates to the 1995 White House Conference on Small Business,
2. Letters and meetings with small business industry and trade associations,
3. The results of numerous studies and research reports on innovation and patents prepared for and by the Office of Advocacy,
4. Our personal business experience.

Thank you for the opportunity to present the views of our office and the many small business associations that have requested our support on this issue. We would be pleased to answer any questions from the Subcommittee

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April 18, 1996

Honorable Newt Gingrich  
Speaker of the  
House of Representatives  
Washington, DC 20515

Honorable Dana Rohrabacher  
House of Representatives  
Washington, DC 20515-0145

Subject: Office of Advocacy's position with regard to intellectual property rights for small businesses. Reference:

1. H.R. 359
2. H.R. 1732
3. H.R. 1733

Dear Mr. Speaker and Congressman Rohrabacher:

This is in response to your March 22, 1996 letter requesting information on the position of this Office with regard to intellectual property and the important role it plays in the development and maintenance of small business. As requested, this response is addressed to both of you.

One of the functions of the Office of Advocacy is to inform Congress of the impact of legislative proposals on small business. The patent process is so critical to small businesses, to the innovative process of the United States, and to our global competitiveness, that our basic position on these issues is that we should err on the side of protecting the inventor.

In no other country in the world does innovation flourish as frequently or successfully as it does in the United States. The nation's success in innovation is in large part facilitated by the U.S. patent system. We believe that protection of the intellectual properties of small businesses via patents, copyrights and trademarks (as well as trade secrets), is a fundamental cornerstone of the economic well-being of the United States of America. The patent system in America has served this country and our small businesses well for over 200 years. Given this track record, changes to the patent laws should only be made where there is a well defined problem to cure and where the remedies selected cure the problem without dampening the inventive spirit of the nation's innovators. What most concerns small business are:

1. Term, and certainty of the length of the term, of the patent protection,
2. Confidentiality of the intellectual property until patent protection is provided,
3. Ensuring that small businesses are not disadvantaged by confrontational processes with much larger firms (U.S. and foreign) with disproportionately larger resources.

The present procedure keeps the pre-issuance discussions between the U.S. Patent and Trademark Office (USPTO) and the inventor as private and privileged communications. During the review of the patent application by the USPTO many small businesses are in a very vulnerable position -- to larger competitors both from the U.S. and from abroad. They usually do not have the resources to fight a large company in the marketplace until they have the protection provided by the issuance of a patent. The patent allows them to obtain additional investment, often venture capital, to pursue product development and market penetration. It also provides them with stronger legal protection if they desire to achieve commercialization of their technologies via licenses and royalties from larger firms that are already entrenched in the markets.

There may be isolated instances of abuse under the current system that need to be corrected without instituting a major overhaul of the patent system that places small firms at a competitive disadvantage with large firms in the U.S and abroad. Breakthrough technologies usually take more than 18 months from filing to issuance of the patent. Small businesses would be particularly vulnerable during this period if their patent application was published.

The delegates to the 1995 White House Conference on Small Business passed two recommendations on this topic as follows:

Recommendation Number 115: "...We further recommend that Congress protect international patent rights in a way that takes into account the needs of small business, including retaining the patent term to run for twenty years from date of application or seventeen years from date of issue, whichever is longer, that patent application remain unpublished until the patent is granted, and that the patent remains with the first to invent rather than the first to file."

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H.R. 1733: Affording third parties opportunity under the pre-publication provisions to file comments and opposition to grant.

Together, the greatly expanded intervention procedures of these two bills would have serious negative impacts on the ability of small businesses to contribute to the innovation process of the United States. We therefore oppose these expanded intervention provisions.

Patent Term: The provisions of H.R. 359 that require the patent coverage be the longer of 20 years from date of filing or 17 years from the date of issue are beneficial to small businesses. As a general rule, the length of time for a patent is of critical importance to small businesses, and they prefer the longest possible period of coverage for the patents. We therefore support the expanded term provisions in H.R. 359.

The position of this office is based on:

1. The recommendations of, and communications with, delegates to the 1995 White House Conference on Small Business,
2. Letters and meetings with small business industry and trade associations,
3. The results of numerous studies and research reports on innovation and patents prepared for and by the Office of Advocacy,
4. Our personal business experience. We have recently had several discussions with the USPTO in an effort to resolve the issues raised in these three bills. While we are pleased with the progress of these talks and hopeful we can resolve these issues, we have not been able to do so yet.

Sincerely,

Jere W. Glover  
Chief Counsel

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\* Last Modified: 6/18/01