

November 8, 2011

Via email
(SMEpatenting@uspto.gov)

Mr. Saurabh Vishnubhakat
Attorney Advisor
Office of Chief Economist
United States Patent and Trademark Office
Mail Stop External Affairs
P.O. Box 1450
Alexandria, VA 22313-1450

Re: International Patent Protection for Small Businesses

Dear Mr. Vishnubhakat:

The American Intellectual Property Law Association (AIPLA) is pleased to have the opportunity to present its views with respect to the subject of international patent protection for small businesses, in response to the “Request for Comments and Notice of Public Hearings on the Study of International Patent Protection for Small Businesses” as published in the *Federal Register* (Vol. 76, No. 195) on October 7, 2011 (the “Notice”), for purposes of the United States Patent and Trademark Office (USPTO) preparing a report on the subject, as required by the America Invents Act.

AIPLA is a U.S.-based national bar association whose approximately 16,000 members are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and in jurisdictions throughout the world.

AIPLA has long recognized the need of small business entities, which have, or plan to have, sales of products or services outside of the United States, to obtain patent protection on their innovations in countries other than the United States. AIPLA has supported, through its committees and programs, the education of small business entities and their patent attorneys, patent agents, or in-house staff with regard to the need for, availability of, and procedures for obtaining patent rights abroad. AIPLA continues to have a strong interest in the establishment of appropriate policies, programs, and mechanisms for enabling small entities to secure patent rights abroad in an efficient and cost-effective manner.

We also note that the USPTO has programs, public service announcements, and advisories on its website that offer support for independent inventors and small and medium enterprises (SMEs). This initiative is commendable and is complementary to initiatives that are offered by international organizations like WIPO, the secretariat for the Patent Cooperation Treaty (PCT).

The PCT is the preeminent vehicle for pursuing international patent protection. That is what it was designed for. Thus, one important thing that the USPTO can do to “best help small businesses with international patent protection” is to cooperate closely with WIPO in more widely disseminating information to promote awareness and understanding about the PCT to the SME community within the United States. WIPO would be expected to work closely with the USPTO in this endeavor.

The Notice included ten “Issues for Testimony and/or Written Comment,” including several subparts for the identified issues. AIPLA is pleased to present its input to the Study with regard to the following issues as stated in the Notice.

1. Overall, how important is international patent protection to small businesses?

The responses to this question may be divided into two groups, each group having a different interpretation of the question. The first (subjective) interpretation may be restated as “How do small businesses view the importance of international patents?” The second (objective) may be stated as “How important is international patent protection for small businesses?”

As to the first (subjective) question—“How do small businesses view the importance of international patents?”—the answer is that they do not attach sufficient importance to them for a variety of reasons. Some small businesses do not value international patents because (1) obtaining patents is too expensive, (2) enforcing patents is too difficult, (3) small businesses are focused on their primary market, the U.S., and (4) small businesses lack the ability to project their marketing internationally.

As to the second (objective) question—“How important is international patent protection for small businesses?”—we believe the answer is “very important.” Any business with a website is marketing its innovations, including potentially patentable inventions, internationally. Enterprises and investors who want to grow, merge, or sell a business should place a high value on international protection because it allows the business to grow and have a tangible value beyond the U.S. market. Overseas markets, especially in developing countries, where standards of living are increasing dramatically, are becoming important markets for many U.S.-made products and services. Any small business that exports devices or processes covered by U.S. patents, or that manufactures such devices abroad for importation into the U.S., should carefully consider the need for international patent protection as a fundamental part of its overall strategy.

However, small enterprises should not rush to file a patent application either domestically or internationally merely because an invention meets the criteria of patentability. Strategic analysis should be conducted to identify inventions that are or will be used for developing commercially useful technologies and products.

While the cost of acquiring and maintaining patent protection may be significant, patent costs are generally only a small component of the total cost incurred in turning an invention into a commercially useful technology or product and marketing and selling it in the domestic or export markets. A cost/benefit analysis review should be done in relation to the SMEs' resources when making the decision to invest in an invention for both the domestic and international markets.

2. At what point, if ever, in the growth of small companies does international patent protection become important?

This question also may be addressed from two different perspectives—one focused on when the typical small business owner *is interested* in acquiring international patents, and the other focused on when small businesses *should be interested* in international patent protection. These two perspectives converge when there is a recognition by small businesses that they need international patent protection, but often that realization does not come until it is too late to apply for protection because of statutory bars to patenting that arise from their own marketing and sales efforts.

As to the first perspective, the issue raised is “When *is* a typical small business owner interested in international patents?” The answer is “When their markets start reaching out of the country into other patent-respecting jurisdictions.”

Growth occurs slowly in many small businesses, and their focus is primarily on stimulating that growth. International patents are expensive, and small businesses have other competing priorities for their capital. The small enterprise may realize that international patent protection is important, but it may not include that component in its business strategy until it is too late. Competitors in other countries may already have copied and used the invention, and even patented the same or similar inventions or their improvements, to the detriment of the original inventor.

With respect to the second perspective, the issue raised is “When should a small business owner be interested in international patents?”

At the outset, international patent protection may be critical in the first few years of establishment. For startup high-tech businesses that have invented the core idea of a new technology, it is critical. Because technology advances quite rapidly, international patent protection is important from the start because protection for the core idea will provide strength to any strategy as the idea is further developed and improved upon. In addition to using patents to protect their growing markets, small businesses would want to get international patents at early stages in order to attract investors, who value the protection provided in emerging markets against competition. Also, since many universities license their U.S. patents on core ideas to small businesses for further development of products and services, the small businesses should be mindful of the advantages of extending protection for that core idea and its improvements internationally, possibly at their own cost.

3. What challenges, if any, interfere with the growth and competitiveness of small companies if international patent protection is not sought early in the innovation process?"

There are many challenges. First, in the absence of international patent protection, there will be no ability to prevent manufacture and sales in other parts of the world. Also, to the extent that the product or service is better made or provided locally, there will be a reduced potential for long-term royalty revenues from licensees and franchisees.

Second, without adequate protection, there will be reduced opportunities to obtain capital from would-be investors. A fundamental responsibility of an investor is to perform due diligence on the target investment enterprise. If international patent protection has been neglected or is insufficient, the likelihood of an investment going forward is reduced, or the valuation of the company is reduced.

Third, in an absence of protection, there is a reduced market position for small companies with respect to larger companies in the foreign market, companies that satisfy market demand at lower prices by copying the small company's products without the need for significant research or development.

Finally, there may be a reduced scope of benefits if rights are acquired late in the product cycle. Patent applications that are filed later in a development process will protect only improvements. If patent protection is not sought for the basic or core development, whether a product or method, early in the innovation process, there may be no way to effectively protect against copying and increased competition. Moreover, competitors in other countries who develop improvements that naturally flow from advances in technology and further refinements in product features may obtain patents on those developments and prevent marketing of those products by the originator of the core idea where there is no patent on the core idea for cross-licensing purposes.

4. What specific role does international patent protection play in the successful internationalization strategies (such as franchising, exporting or foreign-direct investment) of small businesses? Does this role differ by industry or sector?

AIPLA believes that foreign patent protection is critical to successful internationalization strategies. The key obstacle for U.S. companies entering foreign markets is competition with an innovative product that comes from local companies that are offering their own infringing designs. While in some countries it is difficult to enforce patent rights against such companies, without patent protection, it may be impossible to compete.

For example, international protection is critical for any small business that develops a new drug or medical device, since there may be no other clinically acceptable alternative. A patent on that new drug or device will ensure exclusivity for an extended period of the drug or device's market lifetime. In the wireless and IT sectors, if a small business does not have patents in as many countries as possible and as soon as possible, it may be very difficult to obtain local investment in its venture.

Similarly, in franchising, it is necessary that the franchisor take steps to register any patents in the country where the franchise business is going to operate (and even in the surrounding territories taking into account possible expansion strategies of the future) before executing the franchise agreement.

In short, a failure of SMEs with international strategies to obtain international patent protection early dramatically increases the risk that another business will beat them to the patent office and effectively block any possibility of growth in that country.

- 5. How can the USPTO and other Federal agencies best support small businesses regarding international patents:**
 - a. In obtaining international patent rights?**
 - b. In maintaining international patent rights?**
 - c. In enforcing international patent rights?**

With regard to the acquisition of international patent rights, translation costs, annuity fees, and foreign professional fees represent significant expenses and act as barriers that often prevent small businesses from applying for foreign patents. The USPTO and Federal Government could work with foreign governments to delay the requirement for submitting a translation, especially in countries with deferred examination. They also could work to reduce annuity payments for small enterprises during the pendency of an application.

In addition, AIPLA believes that there should be an increased emphasis on worksharing by which a patent application, duly examined by a high-quality competent examining authority, would be granted and respected by other Offices. AIPLA encourages the USPTO to work with international patent organizations to reduce the amount of time and effort needed to examine a patent application.

Under appropriate conditions, there also could be increased U.S. subsidies to WIPO to reduce the cost of filing a PCT application, or WIPO could adopt a fee structure that favors small enterprises. Along this same line, other countries could be encouraged to provide fee structures similar to the small entity and micro entity fee structure employed in the U.S.

In another area, the USPTO and other Federal agencies can do a much better job educating small businesses about the importance of international patents and strategies for effectively pursuing international protection. They also could create a mentoring program to help small businesses develop an appropriate international filing strategy and to understand and deal with various rules in different countries. Such a program would be consistent with the *pro bono* initiatives established under the recently enacted America Invents Act. In this regard AIPLA is committed to assisting the USPTO in its efforts under the AIA to work with IP associations to establish *pro bono* programs to assist small businesses and independent inventors seeking patent protection.

Finally, the USPTO could expand the patent document exchange program to more countries, making it easier to perfect Paris Convention priority claims.

With regard to the maintenance of international patent rights, the largest expense involves government fees and vendor service charges. The U.S. could encourage other countries to follow its “small entity” example, or at least to reduce or eliminate annuity fees for pending applications.

Maintenance fees and annuities in many foreign countries are out of line with the value of the patents and pending patent applications. The Federal Government could negotiate treaties with other countries to reduce annuity fees for small entities, particularly during the pendency of an application. AIPLA would be concerned if the Federal Government were to subsidize these fees for small companies, even if limited to those entities that have well-developed business plans that need international patent protection. Such subsidies could adversely affect funding for the primary goal of achieving and maintaining highly efficient, cost-effective, and user-friendly USPTO operations.

A startup business that has found the money to remain in business for three to ten years (when maintenance or annuity expenses first become due) should use its own resources to maintain its patent rights. AIPLA does not believe that there is a role for the USPTO or other Federal agencies in such activity.

Lastly, with regard to the enforcement of patent rights on an international scale, and given the need for broad agreement on common principles, AIPLA believes that the U.S. Government could more effectively enforce existing treaties to prevent infringement of patent rights.

Having provided the foregoing perspective on the way the Federal Government and the USPTO can assist SMEs in the three identified areas of activity, AIPLA wishes to share a practical perspective on the more fundamental issue of assisting small businesses in understanding the issues, risks, choices, and opportunities inherent in seeking international patent protection.

Most SMEs have no easy way to learn about the proper and effective use of international patents for their business strategy. They are generally not aware of the pitfalls and/or the potential benefits of filing for international patents, and may lack sophistication in terms of IP strategies. Support services for SMEs can be generally categorized as raising awareness, training businesses, providing consultancy services, and stimulating and disseminating innovation. In each of these categories, the USPTO in partnership with other Federal agencies—and in particular as it relates to raising awareness with other organizations that have appropriate resources like WIPO—can provide support to SMEs regarding international patents to increase SMEs competitiveness internationally.

Raising Awareness: The value of international patents is often underestimated by SMEs due to lack of awareness. SMEs need to understand the importance of considering an international patent strategy early in their business models. Raising awareness on this issue can come in many different forms, including making information available, integrating international options into all areas of support, providing assessment tools on the costs and benefits, conducting outreach activities, and creating partnerships.

Training Businesses: Training SMEs on how to integrate international patent strategy within their business model will boost their competitiveness in the international marketplace. Programs can be developed to support SMEs at each level of international patent management, including assessment, filing, maintenance, and enforcement. We suggest that the PTO could organize a panel of retired patent attorneys who could provide free basic direction to small business on international patent matters.

Providing Consultancy Services: Services to SMEs can range from basic to more specialized international patent consulting. This can include utilizing external partners and *pro bono* programs¹.

Stimulating and Disseminating Innovation: SMEs need to be encouraged to integrate an international focus into their overall business strategy. Programs to support SMEs in this area can include the development of awards, creation of innovation fairs, and conducting studies on international innovation trends.

Finally, consistent with the previous recommendations on mentoring and *pro bono* activity, AIPLA would encourage the USPTO to create a taskforce of international patent law specialists to develop a program to help small entities. Such a program could be on a voluntary basis, and expenses for administration of this taskforce could be paid by minimal fees from participating small entities.

AIPLA also believes that an initiative could be undertaken to create an easier to use customs enforcement mechanism that may be used by small businesses to at least temporarily impound infringing imported products. Currently, it is much more difficult to enforce patent rights through the Customs Service than it is copyrights or trademark rights.

6. What role should the Federal Government play in assisting small businesses to defray the cost of filing, maintaining and enforcing international patent protection?

As an overarching principle, AIPLA does not believe that the Federal Government should become involved with subsidizing the filing, maintaining, and enforcing of patents abroad. These are private sector issues that are best addressed by businesses, whether large or small. Nonetheless, it may be useful to study the benefit to small enterprises and to the nation of tax breaks for the cost of obtaining patent protection abroad. Also of interest would be profits made through licensing foreign patent rights abroad and the sale of products or services abroad that are covered by such patent rights. In a similar vein, the U.S. Government may consider strategies to encourage sales abroad, for example, by allowing patent costs to be expensed rather than capitalizing them.

¹ In order to help with the costs of patent attorneys, the USPTO should consider expanding and generalizing the *pro bono* program being piloted in Minneapolis (see <http://www.uspto.gov/inventors/independent/eye/201108/probono.jsp> and http://www.uspto.gov/blog/director/entry/new_pilot_program_to_provide) and explore other possibilities for encouraging patent practitioners to provide *pro bono* services to SMEs.

The USPTO also could consider policies that would result in the examination of U.S. patent applications filed by small enterprises more quickly so that the strength of the invention is known at an early stage and a determination may be made as to where international patents should be obtained. Accelerated examination under the recently implemented Track I is not favorable to small businesses because of the high fee, even when reduced by one-half for small entities. Broadening accelerated examination may in fact further delay the issuance of patents for those who are unable to afford the accelerated track by taking examiners away from normal patent prosecution.

Finally, AIPLA believes that the U.S. Government could work more effectively under existing treaties and negotiate new treaties to obtain better enforcement of patent rights in other countries (especially China) and could seek to reach an international consensus on the importance of, and advantages that should be given to, small enterprises.

In order to effectively prepare for such initiatives, the U.S. Government could identify and study the practices, in an increasing number of countries, of governments and other funding agencies providing grants or subsidies for R & D/innovation activities to research institutes, universities, and enterprises, particularly where a portion of the funds may be utilized for meeting patenting costs. The study could determine whether such support schemes include enforcement costs and international filing costs. The study could determine whether such R & D/innovation/patent funds may come from the budget of the national government, through one of its ministries, departments, agencies, or other institutions, or from a state/regional/provincial/municipal government, a regional/local development agency, a private nonprofit organization, or a university.

The study also could determine whether countries are supporting SMEs through private partnerships to create loan programs to develop innovation and whether such loan programs require the SMEs to show the commercial viability for their inventions.

Finally, case studies of other countries' subsidy programs for patent costs may provide useful information as to whether these are subsidies that focus on first-time patent applications or are highly selective, competitive subsidies for SMEs for inventions that have potentially strong commercial success. Such studies also may identify whether such programs have a strong awareness-raising function and whether other incentives, such as a competitive award, could be an effective method for raising the awareness of the benefit of international patent protection.

- 7. In order to help small businesses pay for the costs of filing, maintaining, and enforcing international patent applications, how effective would it be to establish a revolving fund loan program to make loans to small businesses to defray the costs of such applications, maintenance, and enforcement and related technical assistance?**
 - a. Under what specific circumstances, if at all, would such a fund be effective in helping small businesses?**
 - b. If such a fund would be effective, should the fund be maintained by the Federal Government, and if so, through what mechanism?**

- c. What criteria should be used to decide upon the recipients of funding?**
- d. Could the private sector be meaningfully involved in implementing and maintaining such a fund?**

In the absence of concrete details of a proposed loan program, AIPLA assumes that such a program would need to require a guarantee of repayment of the loan plus interest to the Federal Government, so that the program would not come at the expense of the public or users of the patent system. As a basic principle, AIPLA believes that all available funds from users of the patent system in the United States should be applied to improving the U.S. patent system, which has been neglected for too long.

On a relative basis, obtaining a patent in the U.S. and abroad on key innovations takes capital that may be needed to develop and roll out a successful product. The small business itself or its investors, who are best able to assess risks for any given situation, must make informed and intelligent decisions as to how their own resources are invested in the light of an appropriate strategy for marketing their products and services internationally. AIPLA believes that the venture capital system in the United States has proven to work very effectively in ensuring that sound business decisions are made by small enterprises.

- 8. In order to help small businesses pay for the costs of filing, maintaining, and enforcing international patent applications, how effective would it be to establish a grant program to defray the costs of filing applications, paying maintenance fees, and conducting enforcement and to provide related technical assistance?**
 - a. Under what circumstances, if at all, would such a program be effective in helping small businesses?**
 - b. If such a grant program would be effective, should the program be maintained by the Federal Government, and if so, through what mechanism? What type of grant program, covering what specific costs, would be most effective?**
 - c. What criteria should be used to decide upon the recipients of grants?**
 - d. Could the private sector be meaningfully involved in implementing and maintaining such a program?**

The answers to these questions are largely the same as for question 7. Given AIPLA's concern with achieving the most effective and efficient operation of the Office, should a grant program be considered, the funding of such grants should not adversely affect this primary goal.

- 9. If the Federal Government is limited to providing either (i) A revolving fund loan program or (ii) a grant program described above, but not both, which of these options would be more effective in accomplishing the outcome of helping small businesses pay for the costs of filing, maintaining, and enforcing international patent applications?**

Either a loan or grant program has the danger of adding to waste, fraud, and corruption, which many see as already endemic in government programs. While AIPLA does not have expertise in the area of business economics and finance, it would appear obvious that small businesses do not need more debt. Similarly, statistics on the failure rate of small businesses in general, and the default rate of small business on loans, which surely are available from the Small Business Administration, may be important factors in determining the likely success of a grant or loan program for international patent protection. Tax deductions or immediate depreciation would be a preferred way to help out at the front end of the process in order to help out at the back end as well.

Given a need to choose between the two, AIPLA suggests that a loan may be preferable to a grant. Perhaps a commercial bank loan with a Federal agency guarantee on some portion of the loan (i.e. similar to the SBA 7A or 504 loan guarantee programs). Keeping it simple and working in the private sector with local commercial banks in the lead is preferable. Intuitively, it would seem preferable that the small business needs to have significant “skin-in-the-game”—perhaps as much as 50%–80% of the international patenting project costs should be funded by the small business. This is because of the high technology risk associated with early stage patenting costs. However, commercial banks do not typically invest at this early stage, as they have no expertise in evaluating the value of inventions pre-filing and assessing the risks of success in a patent office and in the marketplace. Thus, it would appear that, as a practical matter, most of the costs of international patent protection need to be borne by the small businesses and their investors.

10. Are there circumstances under which the Federal Government should not consider establishing any of these programs?

With all due respect, on a global basis, governments are notoriously bad at “picking winners” where business startups are concerned. However, should a government program be established, common sense would dictate that the small business should have a concrete business plan for manufacturing, selling, or licensing products in other countries that is supported by market research. Further, such program should not be applied to non-practicing entities, with the possible exception of universities.

Thank you for allowing AIPLA the opportunity to provide comments on this important initiative. AIPLA looks forward to further dialogues with the USPTO in finding solutions and defining programs to address the problems with international patent protection for small enterprises.

Sincerely,

A handwritten signature in black ink, appearing to read "William G. Barber". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

William G. Barber
AIPLA President