



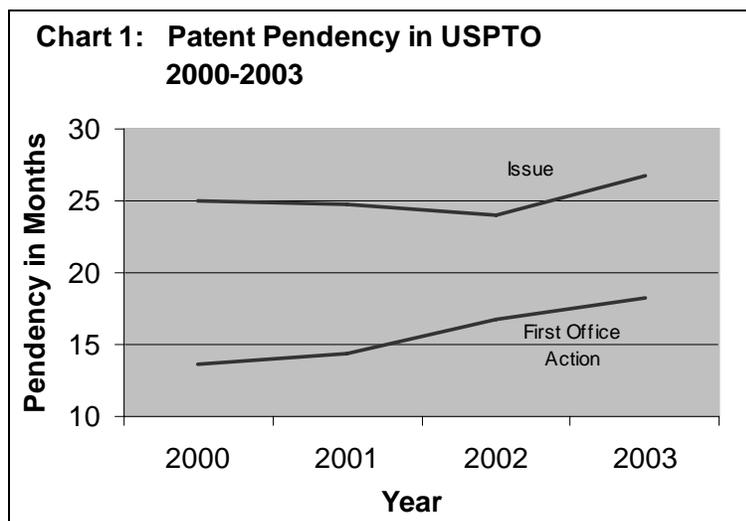
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Addressing the Crises of the Global Patent System

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The United States and global patent systems are entering a period of crisis, characterized by escalating pendency of applications, declining quality of examination, duplication of work by multiple patent offices and increasing costs of patent prosecution.



In the United States Patent and Trademark Office (USPTO), both the number of patent applications filed and the average pendency of applications has been steadily increasing. From FY2000 to FY2003, the total number of patent application received rose from 311,807 to 355,418, or an increase of about 14%. During this same period, the average time between patent filing and first office action rose from 13.6 months to 18.3 months and the average time between patent filing and issue rose from 25 months to 26.7

months (see Chart 1). In many of the critical, newer technologies and subject matter areas

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current pendency is much longer. For example, pendency between filing and issue for Computer Architecture, Software and Information Security subject matter is at a staggering 39 months.

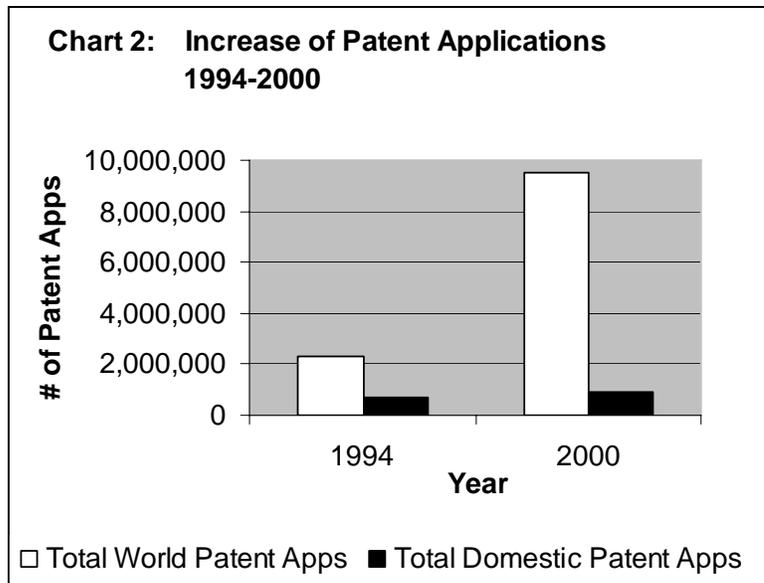
Unless remedial action is taken soon to reduce patent pendency, the backlog of patent applications, which currently stands at 475,000, will reach over 1,000,000 by 2008. Further, pendency for critical subject matter areas will especially be impacted, in some cases doubling by 2008.

The crisis in the USPTO is compounded by the necessity to file the same application in an increasing number of jurisdictions, many of which have similar or worse problems than the USPTO. Most emerging market developing countries have very limited examination capability, and the larger, more sophisticated offices, particularly the Japan Patent Office (JPO), suffer from large backlogs and restrictions on the hiring of new examiners to address these backlogs.

The Solution: Reduce Duplication of Examinations, Share Work Among National Offices, Harmonize International Examination, and Ultimately, Create a Multinational Patent Office for the APEC Region Similar to the European Patent Office

The number of patent applications globally is rising exponentially. In the five years from 1994 to 1999, World Intellectual Property (WIPO) statistics reveal that the total number of applications in all countries tripled, from 2,300,000 to 7,000,000. However, during the same period the number of applications filed by domestic applicants increased only from 670,000 to 810,000 (See Chart 2). Therefore, duplicate filings in multiple countries account overwhelmingly for the huge increase in total filings.

While, most applicants file and complete the patent application process in only a select number of the 128 member states of the Patent Cooperation Treaty, it is increasingly imperative to file in a large number of them, particularly in the emerging markets that are a part of Asia Pacific Economic Cooperation (APEC). And, while one-stop filing and examination is possible for the 28 member states of the European Patent Office (EPO), there is no counterpart to eliminate costly and duplicative examination in the Asia Pacific Region.



Further, the number of patent offices capable of effectively searching and examining in all fields of technology is very small. There are only 10 patent offices in the world that qualify as international searching authorities and international preliminary examining authorities under articles 16 and 32 of the Patent Cooperation Treaty. And, most of these offices lack comprehensive capability to examine in all technologies.

Clearly, much of the stress on the international system could be relieved by concentrating examination in a few regional patent offices along the model of the EPO. Short of that, a system of work sharing of the kind embodied in the system of Modified Substantive Examination (MSE) used in Australia, Malaysia, Singapore and Croatia, would eliminate much of the duplication of work in national offices examining the same patent application. Under the MSE system, there is a simplified examination following submission by an applicant of the results of the work of another country's patent office.

The big three patent offices of the world, the USPTO, the EPO and the JPO, are currently experimenting with the kind of work sharing that could eliminate much of the duplication involved in processing multinational applications. However, for this system to provide significant relief to the USPTO – the most stressed of the big three offices – arrangements must be made to provide the USPTO with search and examination reports from its sister offices far earlier than is the case today. Both Japan and the EPO have systems of deferred examination. Many Japanese applicants elect to defer examination; this means up to 36 months may pass before an application is examined. The result is that even with its current high pendency rate, the USPTO completes examination of Japanese origin patents prior to the commencement of examination in Japan. If Japan were to provide more timely examination results to the USPTO and the USPTO were to conduct a simplified examination based on those results, the case load of full examination at the USPTO would drop by as much as 50,000 applications per year, taking a huge amount of pressure off the US office.

Experts from the tri-lateral offices and from the patent offices of APEC countries have been discussing means of reducing duplication in the international patent system. However, a perceived stumbling block in these discussions is the lack of harmonized definitions of prior art, novelty, and non-obviousness or inventive step. Attempts to create harmonized definitions in these areas have been made in the Standing Committee on the Law of Patents in WIPO. Unfortunately, the unwieldy structure of WIPO and the tendency for North-South trade negotiating postures to spill over into WIPO's discussions have thus far stalled all progress on harmonization. Therefore, it may be time to look to other possibilities to pursue the kind of harmonization that could lead to streamlined multinational examinations. A few willing countries in the Asia Pacific region could on an *ad hoc* basis move to harmonize their definitions of prior art, novelty and non-obviousness or inventive step as part of a program to accelerate work sharing. There exists within APEC an Intellectual Property Experts Group (IPEG) that could serve as a forum for such a harmonization effort. Indeed, on August 31 and September 1 of this year the IPEG met to consider an agenda that included two relevant items: "Establishing Internationally Harmonized IPR Systems:" and "Cooperation on Searches and Examinations." Both of these items were placed on the agenda by Japan. Unfortunately, these were but two among 24 substantive items that were considered at the two day meeting. Unless these items are singled out and made a high priority – with extensive discussions and cooperation on them – timely and meaningful solutions will not be developed to address the impending patent crisis that will reach catastrophic proportions within the next few years.

The ultimate solution to the patent crisis in the Asia Pacific region as well as in the United States would be the creation of an Asia Pacific Patent Office similar to the European Patent Office. Like the EPO the creation of this office would not require the abolition of existing national offices. Rather, it would offer a one-stop alternative to country-by-country examination that

would be far more efficient and provide better quality examinations at less cost than is currently the case in the region. For all practical purposes it would reduce filings to two offices, the EPO for the expanded European Union and the Asia Pacific Office for the Americas, the Pacific and Asia – especially if two non-APEC countries, Brazil and India, eventually could be brought in. In addition to lower costs and efficiency, a regional patent office would have an inherently harmonizing effect on international patent law. The existence of the EPO has had such an effect in Europe by bringing new subject matter – biotechnology and software – within the European system. The EPO's Expanded Board of Appeals has created a patent jurisprudence that has harmonized patent law throughout Europe.

One of the challenges facing patentees in the rapidly globalizing economy is that individual national offices may cater to idiosyncratic national interests at the expense of their legitimate rights. An example of this is seen in the treatment of pharmaceutical patents in Brazil. Prior to issuing a pharmaceutical patent the Brazilian patent office must seek the advice of the Ministry of Health, which has a history of hostility to patents. The result is that few pharmaceutical patents have issued. A single regional patent administration would greatly reduce the possibility of mischief from parochial interests in individual markets.

In addition to reducing costs and providing harmonized examination throughout the region, a regional patent administration also would provide a long-term solution to the crisis at the USPTO. The U.S. Office's ability to keep its fees, to restructure operations and employ new technologies to enhance quality, efficiency and pendency is greatly limited by interference from Congress, the Office of Management and Budget and the Department of Commerce, all of whom have power over the Office, but are influenced by political, fiscal and administrative concerns that are not necessarily consistent with the welfare of patent applicants. It is my experience that this same problem is also encountered by national patent administrations in many other countries. A stand-alone regional office would be free of these limitations and would have a single operating principle: service to applicants.

An Action Plan to Achieve Short Term Results and Long Term Benefits

The first step in an action plan would be energizing existing efforts of the national offices, particularly those involving substantive harmonization and work sharing. With encouragement from industry, Japan and the United States and other interested governments – perhaps Singapore – national offices could cooperate in leading this effort. Accelerated government-to-government discussions could take place on a bi-lateral and regional basis, with a focus on APEC. APEC Ministers should be encouraged to direct the Intellectual Property Experts Group to develop a concrete plan to address the patent crisis in the region. This plan should focus on implementing substantive harmonization within the region as soon as possible. Concurrently, efforts to share work among willing patent offices in the region should be put on a fast track. In the case of the United States and Japan, this should take the form of encouraging Japan to provide search and examination results for Japanese origin patents much earlier than is the case presently. To the extent that smaller, but sophisticated offices such as those in Canada and Australia can develop specialized areas of competence, similar arrangements might be made with the USPTO and others wishing to avoid duplication of effort. This would lead to a more harmonized regional system and reduced pendency, particularly in the USPTO. In the case of other countries in the

region, accelerated efforts should be made to encourage the use of modified substantive examination of the kind currently utilized by Australia, Malaysia and Singapore.

In addition, users of the patent system need to work more closely and effectively with the USPTO to accelerate solutions to the patent crisis already in the planning stages and to develop new solutions. This effort will provide greater industry collaboration in the digital file management and searching as well as improving electronic access to relevant prior art. To the extent that the USPTO experiences difficulties in implementing solutions because of uncooperative union leadership, the industry needs to provide the needed political support for the USPTO's position.

While the short term solutions described above are put into place, governments in the Asia Pacific region should be working to design and create an Asia Pacific Patent Office that will provide the region the alternative of a one-stop, harmonized multinational examination of the kind now available through the EPO for its member states.

The Role of IPI as a Catalyst in Resolving the Asia Pacific Patent Crisis

In the six years since its founding, IPI has emerged as the leading non governmental organization in the world providing governments with advice and technical assistance on the administration of intellectual property systems. Prior to the creation of IPI there was no organization in Washington to focus the United States Government and international organizations located there on the need to support infrastructure building in the field of Intellectual Property Rights. Building meaningful national administrations for patent and trademark examination and registration, and for enforcement of intellectual property rights in general, requires not only expertise, but also money. IPI has been working with the U.S. Congress to urge it to do its part to fund the building of national IP infrastructures around the world.

There are recent signs that IPI's efforts may be bearing fruit. On September 15, the Senate Appropriations Committee of the United States Senate approved counterpart legislation and issued a report that would provide \$20 million in FY 2005 to the USPTO "to increase its efforts to ensure that governments in developing and least developed countries are establishing regulatory and enforcement mechanisms in order to meet their international obligations relating to the protection of intellectual property and to assist them in these efforts." Should this provision be enacted into law next month, IPI would hope to work with the USPTO and others to direct these new funds to assisting countries in the Asia Pacific region in their response to the patent crisis in ways suggested by this paper. Further, IPI has been working over several years to educate international financial institutions in Washington, such as the World Bank and the Inter-American Development Bank (IADB), of the need to fund intellectual property infrastructure building efforts. There are recent signs that – at least at the IADB – this effort may be bearing fruit. I hope that this paper will stimulate thinking in Singapore and other countries in the region to support efforts such as that provided in the pending U.S. appropriations legislation, and to encourage development banks – and even national governments – to realize that effective administration of intellectual property rights requires adequate financing of national and regional patent and trademark administrations.

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