



900 17th Street, N.W.
Suite 1100
Washington, DC 20006
Phone: 202.783.0070
Fax: 202.783.0534
Web: www.ccianet.org

Computer & Communications Industry Association

February 2, 2011

The Honorable Patrick J. Leahy
Chairman
Senate Judiciary Committee
226 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

The Honorable Jeff Sessions
Ranking Member
Senate Judiciary Committee
152 Dirksen Senate Office Building
United States Senate
Washington, D.C. 20510

Dear Senators Leahy and Sessions:

Last year, I expressed the Computer & Communication Industry Association's deep concern over the proposed Managers' amendment to the patent reform bill, S. 515, in a letter to Congress. I write to express similar concerns about S. 23, which is largely the same bill, and to the extent it has changed, it has done so for the worse. Hearings with an open record should be held on this legislation in an effort to resolve these concerns. Advancing S. 23 without resolving these problems will do significant harm to some of the most innovative and dynamic industries in our nation.

As you know, many in the technology industry view our current patent system as a backhanded industrial policy, and have been urging major reform for years. Currently, high-technology industries, beset by low standards, excessive patenting, and inefficient strategic behavior, effectively wind up subsidizing other industries that benefit from the unitary patent system. S. 23 does little to address the core structural patent system problems impacting our industries. Because our sectors drive innovation throughout the economy, and the Internet specifically adds \$2 trillion to U.S. GDP,¹ we believe that, unchanged, S. 23 will ultimately have an adverse effect on the economy as a whole. We need a patent system that supports, not frustrates and entangles innovative industries. Moreover, with nothing in the bill to monitor and measure its impact on legal and business practices, future Congresses will find it difficult to remedy these growing problems, and assess the impact of legislative changes.

I also want to address a new issue, however, since S. 23 contains important new language upon which the Judiciary Committee has not yet held hearings. I refer to the inclusion of Section 14, regarding "Tax Strategies Deemed Within the Prior Art." Legislatively singling out and targeting for mandatory exclusion such an area of business activity without compelling rationale is an unwise and dangerous precedent. While there are serious questions worthy of examination relating to the handling of abstract patents in general, any problems with this narrow class of patents, if they in fact exist, should be dealt with in a manner so as to address a far broader and

¹ Exec. Ofc. of the President, Nat'l Econ. Council (NEC)/OSTP, *A Strategy for American Innovation: Driving Towards Sustainable Growth and Quality Jobs*, Sept. 2009, at 5, available online at <<http://www.whitehouse.gov/administration/eop/nec/StrategyforAmericanInnovation>>.

more general phenomenon confronting the patent system: since the Federal Circuit's 1998 decision in *State Street Bank v. Signature Financial Group* the patent system has struggled mightily to cope with line-drawing problems under the burden of increasingly vague subject matter. Although the Patent Act's explicit reference to "processes" in Section 101 does not make clear what of abstraction is a bar to protection, the flood of abstract patents in the wake of *State Street* has polluted the patent landscape and diluted IP protection for truly innovative technological advances.

The difficulties inherent in drawing the line between the innovative and the frivolous in abstract fields should not compel us to single out one narrow industry for disparate treatment, however. Unlike other areas of abstract patenting -- such as software functionality in the smartphone industry -- I am unaware of a costly litigation meltdown with respect to legal compliance-related patents. Indeed, the proposed amendment does not even target all areas of legal compliance, thereby implying that while tax strategies are unworthy of protection, estate-planning strategies are sufficiently meritorious. It is difficult to rationalize why patents pertaining to compliance with Title 26 (Internal Revenue Code) should be penalized whereas patents pertaining to compliance with Titles 11 (Bankruptcy), Title 29 (Labor), Title 42 (Public Health and Welfare) should not -- or, for that matter, Title 17 (Copyright), considering that copyrights themselves are a form of tax.²

Not only is the proposed amendment unfair, it would be ineffective, and possibly counterproductive, at addressing the broader challenge to the patent system posed by abstract innovation. To single out and penalize tax planning patents -- and thus any financial software products that include tax planning elements -- implicitly suggests the converse, i.e., that all other areas of abstract patenting, such as general business methods, other aspects of legal compliance, and software are all presumed legitimate. While some such areas of abstract innovation may be worthy of protection, others are not. In *Bilski v. Kappos*, the Supreme Court demonstrated its unwillingness to clearly address this problem, leaving this challenge to Congress. That challenge cannot be met by enacting measures without Committee hearings, targeting one lone industry, where little litigation has occurred, and with few if any documented problems.

The focus of the section is *tax planning*, but there are likely sweeping unintended consequences, which could impact all forms of financial management software including accounting, investment management, and tax preparation for consumers and small businesses alike. Yet what is the purpose? We see no language, or even hint that the provision is a solution to real problems in the tax area such as tax evasion, tax resistance, tax havens, offshoring schemes, or similar improprieties and illegalities.

A review of the staff and JCT analysis on the presumed impact of the provision is revealing. It appears oblivious to the actual evolution of technology and software in this area. The illustrative example offered asserts that tax software is not impacted because all such products do is provide electronic fillable forms with a calculator. This reflects a vision of software functionality that is simplistic and at least 30 years out of date. Legislation based upon such factual misconceptions

² *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 519 (2001) (Stevens, J., *et al.*, dissenting); *Eldred v. Ashcroft*, 537 U.S. 186, 245 (2003) (Breyer, J., dissenting) (both citing Thomas B. Macaulay, *A Speech Delivered in the House of Commons*, Feb. 5, 1841 (copyright is "a tax on readers for the purpose of giving a bounty to writers")).

is not ready for enactment.

The last time Congress attempted to address special subject matter in a patent reform instrument, it inadvertently blessed subject matter with which it was concerned when it enacted Section 273 in 1999. The result of a measure designed to respond to the apparent unfairness of the *State Street* decision for those who practiced business methods as trade secrets was that Congress confounded the traditional understanding of what “business methods” were, leading Justice Kennedy to conclude for the Court in *Bilski* that Congress must have believed that some business methods could be patentable – even though Congress had never addressed this.

In sum, this treatment of tax planning in S. 23 may further cloud the debate over the scope of patentable subject matter without necessarily addressing the ostensible issue. I applaud your willingness to consider the thorny issue of subject matter, but I submit that singling out one specific group of software applications is not a viable solution, especially when it appears to validate an infinite range of patents on abstract subject matter, past and present – excepting tax planning strategies going forward.

In light of Section 14, and the importance of effective overall patent reform, hearings should be held on the provisions from last year’s Manager’s Amendment as well as the proper bounds of patentable subject matter before other action is taken. Committee hearings will provide a basis for crafting a bill that will improve our patent system. Until these problems can be resolved, I strongly urge that this bill not be advanced.

Sincerely,

A handwritten signature in black ink, appearing to read "E. J. Black". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

Edward J. Black
President & CEO
Computer & Communications Industry Association

cc: The Honorable Senator Orrin G. Hatch
The Honorable Senator Charles E. Grassley