October 1st, 2019

The Honorable Amy Klobuchar
712 Hart Senate Office Building
Washington, DC 20510

The Honorable Tim Scott
104 Hart Senate Office Building
Washington, DC 20510

Dear Senator Klobuchar and Senator Scott,

On behalf of the Alliance of U.S. Startups and Inventors for Jobs (USIJ), I write to offer our support for the *Enhancing Entrepreneurship for the 21st Century Act*. As a coalition of almost fifty startups, inventors, investors, and entrepreneurs, we applaud your leadership in addressing this crucial issue affecting our members on the front lines of the innovation economy. We look forward to working with you and your colleagues on the Senate Entrepreneurship Caucus to advance this timely legislation and bolster U.S. entrepreneurship.

As you know, despite the U.S. experiencing the longest economic expansion on record, new business formation has failed to return to the levels seen prior to the Great Recession. The Associated Press reported earlier this month that applications to form businesses that would likely hire workers fell 16% between 2017 and the first half of 2019. After hearing from our members about this issue, USIJ led a quantitative study on U.S. company formation and venture capital (VC) funding trends in 2018 to better understand this so-called "startup-slump." We found that venture capital investment in the most advanced technologies declined between 2004 and 2017, while investment in lower-risk commercial activities increased disproportionately. The decline in VC funding was especially prominent in strategic sectors that depend on patent protection, such as semiconductors, wireless communications, core internet networking, medical supplies, and internet software. The attached chart summarizes the shifts that have taken place in investment away from risky investments in new technology that requires reliable longer term patent protection to less risky areas that do not.

Many reports on the business creation slowdown focus on regulatory hurdles and companies' difficulties finding qualified workers. However, our 2018 startup investment study and personal stories from our members reveal that the recent weakening of the U.S. patent system is also a key contributor to this decline in entrepreneurship. This is the result of a series of court cases, the initial implementation of the America Invents Act and the adoption of a business model by many large technology companies that basically largely boils down to: infringe now; fight hard if you are sued; and the worst outcome is a reasonable royalty at the end of a long, prolonged legal process that most smaller competitors cannot survive. This process has been coined, "*efficient infringement*" by many large incumbent companies. This has resulted in the U.S. patent system being significantly degraded over the past decade, as noted in the U.S. Chamber of Commerce's annual Global IP Index for 2018.

We share your concerns about the recent slowdown in business creation and agree that a comprehensive federal investigation into the causes of this slump will help inform timely policy discussions on how to preserve the United States' historic status as a global leader in entrepreneurship. As such, passing the *Enhancing Entrepreneurship for the 21st Century Act* is a crucial first step to addressing this crisis and we look forward to working with you to advance it. Furthermore, as you and your colleagues on the Senate Entrepreneurship Caucus continue to work to address this issue, we urge you to consider the critical role reliable patent rights play in our innovation economy.

Sincerely,

Chris Israel
Executive Director
Alliance of U.S. Startups and Inventors for Jobs

Significant Shift in Venture Capital Investments – 2004 to 2017

▪ Exemplary strategic sectors that have declined as a % of total VC funding: ➢ Core internet networking ➢ Wireless communications ➢ Internet software ➢ Operating system software ➢ Semiconductors ➢ Pharmaceuticals ➢ Drug Discovery ➢ Surgical Devices ➢ Medical Supplies ▪ % of total VC funding in 2004: 20.95% ▪ % of total VC funding in 2017: 3.22%	▪ Exemplary sectors that have increased as a % of total VC funding: ➢ Social network platforms ➢ Software apps ➢ Consumer apparel and accessories ➢ Food products ➢ Restaurants, hotels and leisure ➢ B2C companies in general ➢ Consumer finance ➢ Financial services in general ▪ % of total VC funding in 2004: 11.4% ▪ % of total VC funding in 2017: 36.3%