

U.S. PATENT AND TRADEMARK OFFICE: FEE SCHEDULE ADJUSTMENT AND AGENCY REFORM

HEARING BEFORE THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY OF THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES ONE HUNDRED SEVENTH CONGRESS SECOND SESSION

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U.S. PATENT AND TRADEMARK OFFICE: FEE SCHEDULE ADJUSTMENT AND AGENCY RE- FORM

THURSDAY, JULY 18, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:01 a.m., in Room 2141, Rayburn House Office Building, Hon. Howard Coble [Chairman of the Subcommittee] presiding.

Mr. COBLE. Good morning, ladies and gentlemen. The Subcommittee will come to order.

My good friend and Ranking Member, the distinguished gentleman from California, Howard Berman, is elsewhere on the Hill today, but I think he may, hopefully, join us prior to the conclusion of the hearing. But he is involved with another legislative matter that requires his attendance there.

Good to have you all with us today.

Let me make a few informal statements before I present my formal statement. As you all know, we have confined ourselves during hearings this session to four witnesses. Others wanted to be at the table. Their conspicuous absence is by no means their lack of interest or that they're being dissed by us. We've tried to be balanced as we have invited panelists.

And I see Herb Wamsley from the Intellectual Property Owners group. They've been very helpful.

I don't think Robert Holleyman is in the audience. He's more concerned about copyright, but to some extent patents. Robert and his BSA and other groups have been very helpful.

And I will say this later in the meeting, but I want you all to know that any statements that want to be submitted will be received.

And I will say now, anybody on the Judiciary Committee who has any statement or information regarding this matter, feel free to submit that as well.

And I was going to tell Howard Berman. I haven't had a chance to talk to Howard this week. This may well be one of the most significant hearings, if not the most significant hearing, that we have had this session and maybe even during my tenure as Subcommittee Chairman.

And, Judge, unlike other times, there may be disagreements today. And that's not to say that just because we're not unanimous in agreement that we can't disagree agreeably.

You have undergone maybe the not enviable morphing transition of going from legislator on the one hand to a very able executive representative on the other. And I'm sure that doing that well. It may be making an old man out of you ahead of your time—
[Laughter.]

In any event, folks, having said all that, let me give my opening statement.

And I think the gentleman from Massachusetts wants to be recognized as well, do you not, Mr. Meehan, for an opening statement?

Mr. MEEHAN. Thank you.

Mr. COBLE. I'll recognize you subsequently.

Well, it's *deja vu* all over again, folks. It was not that long ago when we met to study the operational problems that continue to plague the Patent and Trademark Office. As we know by now, simply shaking our collective fist at the appropriations process is not an adequate response.

I believe our Subcommittee understands the necessity to work with our friends at the Appropriations Committee, not against them. We need to pursue strategies that will place the agency in the best possible position to maximize its administrative efficiencies, which ultimately translates into enhancing patent and trademark quality first, and reducing pendency and backlogs second. Only then can we play a stronger hand when requesting more funds on behalf of the PTO.

Now, I said earlier we need to be friends with our Appropriations Committee. I don't want anybody to misinterpret what I'm saying. I'm not suggesting that we no longer pursue the fight to turn off this diverting spigot. I want that diversion to cease and desist, on the one hand. On the other hand, we're at war, and it's not likely that that diversion process is going to be terminated imminently.

But at some time, I want the spigot turned off, Judge. And I want those monies to be retained down there, down yonder, as we say in the rural South, where they belong.

At our last gathering, I also mentioned that Jim Rogan is the right man to lead PTO into the 21st century. His work since that time makes my point yet again. The Director has aggressively and boldly developed a strategic business plan to transform the agency and make it more responsive to the needs of the user community.

This does not mean that the Director will receive a blank check today or in the future. While no one in this room questions his intentions or earnestness in developing the strategic plan, there are many who question some of the details of the plan, starting with the new fee schedule, which is the focus of our hearing today.

The user groups that subsidize the agency I believe have a right to critique these proposals, just as the taxpayers review the work of their respective Congressmen.

I encourage the witnesses to remain candid in their testimony, and I am confident we will remain civil as well. Or, hopefully, we will remain civil as well. Knowing the parties at the table, I'm sure we will. After all, at the end of the day, the Subcommittee, the user

groups, and the PTO want the same thing: strategies that will help a good agency get better.

Finally, I know there was much demand to participate in the hearing today. Again, I want to encourage those parties who did not make the cut at the table to submit statements for the record.

[The prepared statement of Mr. Coble follows:]

PREPARED STATEMENT OF THE HONORABLE HOWARD COBLE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NORTH CAROLINA

"Good morning. The Subcommittee will come to order.

"Well, folks, it's deja-vu all over again.

"It wasn't that long ago that we met to study the operational problems that continue to plague the Patent and Trademark Office. As we know by now, simply shaking our collective fist at the appropriations process is not an adequate response. I believe our Subcommittee understands the necessity to work with our friends at the Appropriations Committee—not against them. We need to pursue strategies that will place the agency in the best possible position to maximize its administrative efficiencies, which ultimately translates into enhancing patent and trademark quality first, and reducing pendency and backlogs second. Only then can we play a stronger hand when requesting more funds on behalf of PTO.

"At our last gathering I also mentioned that Jim Rogan is the right man to lead PTO into the 21st Century. His work since that time makes my point yet again. The Director has aggressively and boldly developed a Strategic Business Plan to transform the agency and make it more responsive to the needs of the user community.

"This does not mean that the Director will receive a blank check today or in the future. While no one in this room questions his intentions or earnestness in developing the Strategic Plan, there are many who question some of the details of the plan, starting with the new fee schedule which is the focus of our hearing. The user groups who subsidize the agency have a right to critique these proposals just as the taxpayers review the work of their congressmen. I encourage the witnesses to remain candid in their testimony, and I am confident we will remain civil as well. After all, at the end of the day, the Subcommittee, the user groups, and the PTO want the same thing: workable strategies that will help a good agency get better.

"Finally, I know there was much demand to participate in the hearing today. I would encourage those parties who did not make the cut to submit statements for the record.

"I now recognize my friend, the Ranking Member from California, for his opening statement."

Mr. COBLE. I now am pleased recognize the distinguished gentleman from Massachusetts, Mr. Meehan, for an opening statement.

Mr. MEEHAN. Thank you, Mr. Chairman. And I will be very brief.

I too want to commend Jim Rogan for his commitment, and I too have confidence in his leadership. I compliment him and the PTO for setting forth a bold plan for reforming the PTO. While the PTO has done reasonably well over the years, I think that it needs to become more innovative, more responsive, more efficient. And I think this proposal will help to do that.

What I don't agree with and oppose is PTO's proposal to increase patent fees by 50 percent or more. I just don't think it's a good idea, particularly in the face of a severe recession in the high-technology industry.

From my perspective, the last thing we need to do is increase taxes on new inventions, which is my perspective of these fee increases.

Secondly, it's difficult to rationalize a fee increase in the face of the continued divergence of patent fees for other uses. This has gone on and become a tradition, fee divergence. And I'm disappointed the Administration is continuing this fee divergence. In

2003 alone, I think the Administration will divert \$162 million in patent fees to unrelated programs.

This is at a time where there an excessive, obviously, backlog on patent application.

So it seems that it's a budgetary shell game. Members of the Committee here have tried to stop it. And we need to do everything we can to try to stop that.

So I appreciate, as I say, Mr. Rogan's effort. Look forward to working with you and Members of the Committee on this important issue.

Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman. And I will remind everyone that neither the Democrats nor the Republicans own a corner of the diversion market. Each have inserted their grubby paws into the coffers down there. I said it before. I say it to Democrats. I say it to Republicans. I'm bipartisan to that extent.

We've been joined by our good friend from the Smoky Mountains of east Tennessee. Mr. Jenkins, do you have an opening statement?

Mr. JENKINS. Thank you, Mr. Chairman. No, I do not have an opening statement.

Mr. COBLE. Thank you, sir.

Our first witness today is Jim Rogan, the Undersecretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office. He was nominated by President George W. Bush on May 25, 2001, and confirmed by the U.S. Senate on November 30, 2001. We all remember him as a valued colleague who served on our Subcommittee from 1997 to 2001.

Judge Rogan had a distinguished career in public service. He was a gang murder prosecutor in the Los Angeles County District Attorney's Office, and became California's youngest sitting State court judge in 1990 prior to his election to California State Assembly in 1994. Judge Rogan earned a B.A. degree from the University of California at Berkeley in 1979, and his J.D. from the UCLA School of Law in 1983, where he served as a member of the UCLA Law Review.

Our next witness is Ms. Katherine Barrett Park, trademark counsel for the General Electric Company. She is testifying in her capacity as executive vice president of the International Trademark Association, commonly known as INTA.

Ms. Park previously was vice president and senior intellectual property counsel of NBA properties and has worked in private practice. During her legal career, she has concentrated on trademark and copyright law, with special emphasis on trademark prosecution, enforcement, and licensing. Ms. Park is a graduate of Brown University and the Colombia University School of Law.

Our next witness is Mike Kirk, unknown to no Member of this Subcommittee. That's not to say that the rest of you are unknown either, but Mike Kirk we see frequently up here. It's good to see you again, Mr. Kirk.

Mr. Kirk served, as you know, as the executive director of the American Intellectual Property Law Association. In 1993, Mr. Kirk served as the acting assistant secretary of Commerce and acting commissioner of patents and trademarks. From May 1994 through March 1995, he served as deputy assistant secretary of Commerce

and deputy commissioner of patents and trademarks. Mr. Kirk earned his bachelor of science in electrical engineering at the Citadel, his juris doctorate from the Georgetown Law Center, and his master of public administration from Indiana University.

Our final witness today is Mr. Charles P. Baker, who is currently Chair of the Intellectual Property Law Section of the ABA and a member of the ABA Section Division Committee on Professionalism and Ethics. Mr. Baker is a partner with Fitzpatrick, Cella, Harper & Scinto, a New York law firm comprised of 150 lawyers specializing in all aspects of intellectual property law.

Mr. Baker obtained his J.D. from the University of Virginia and a bachelor of engineering physics from Cornell University. He is admitted to the New York State Bar and several Federal bars.

Good to have each of you with us. We have written statements from all the members of the panel, and I ask unanimous consent to submit them into the record in their entirety.

I ask that each witness limit his oral statement to 5 minutes. As you know, we try to comply with the 5-minute rule. We will not severely penalize you if you violate that. But when you see the red light appear in front of you, you know that's your sign to begin to wrap it up.

We apply the 5-minute rule to ourselves as well, as we question you all after you submit your testimony.

Mr. Rogan, we will start with you, Judge. Good to have you back on the Hill.

STATEMENT OF THE HONORABLE JAMES ROGAN, UNDERSECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE U.S. PATENT AND TRADEMARK OFFICE

Judge ROGAN. Mr. Chairman, thank you. Thank you for that very generous introduction.

Mr. COBLE. Jim, if you would pull that mike a little closer to you, please? Thank you.

Judge ROGAN. Mr. Chairman, thank you for the introduction and for calling the hearing.

I also want to thank my friend from Massachusetts for his very kind comments.

I appreciate our Ranking Member's unenviable duty today. I know he's been very engaged in this issue, and were he not called to something that none of us envy him for, I know he would be here also.

Mr. Chairman and Members of the Committee, 3 months ago, I testified before the Subcommittee that the U.S.P.T.O. was facing a crisis due to our increasingly large and complex workload. To tackle this head on, and in keeping with the expectations of the Administration, Congress, and owners of intellectual property and the patent bar, I said that we would put forward a comprehensive plan to enhance quality, reduce pendency, and transform the agency into an information age, e-commerce-based organization.

This plan does precisely that and pursues four main objectives. It improves quality, which is our first and foremost objective. It reduces pendency. It listens more closely to our applicants and the demands of our national and global marketplace. And it allows us

to be more productive while hiring 2,500 fewer examiners than the previous plan anticipated, and spending half a billion dollars less than the previous plan had anticipated.

If Congress provides us with the funding and statutory changes necessary for implementation, this plan shows our benchmark for reaching a quality-driven 18-month average pendency for patents, by far the fastest in the world, accomplished through a reform of the entire patent search and examination system, greater reliance on outside searches, and incentive-driven fees.

Mr. Chairman, in the Committee's call to order, it said that I would be here to defend the plan. I'm not sure if that's the way it should be phrased, because if a defense is needed, perhaps it should be for those who want to defend the status quo. It's simply unacceptable.

But if the Committee needs a defense for this aggressive plan, I would offer it in two sentences. One comes from the House of Representatives, and one comes from the Senate. Listen to what both houses said in their report language last year.

The House said, "The Patent and Trademark Office is unable to meet the demands of the increasing number of patent applications. With the increased funding the office has received in the past, there is no measurable increase in performance. The PTO has been unsuccessful in proving that increased funding will decrease the amount of time it takes an applicant to receive a patent."

This from the Senate, Mr. Chairman. The Senate said "the PTO has failed to provide a thorough business plan that demonstrates how resources will be used and what results will obtain. Second, PTO management has not been sufficiently innovative. Although patent filings have increased dramatically over the past decade, PTO management chose to remain wedded to an archaic patent process and attempted to hire its way out of its workload problems. Substantial amounts of funds have been expended on information technology projects over the last decade, but no significant increase in examiner productivity has been noted. Finally, the Committee lacks full confidence in the information provided to it by PTO management regarding its needs and performances."

Make no mistake, Mr. Chairman, implementation of this plan will not be painless. It challenges the status quo. It is far-reaching. It is predicated on behavioral changes from within the PTO and also from within our user community.

Our proposed fee schedule compares quite favorably with the fees of other foreign offices, particularly with Japan, whose equivalent fees are twice what we are suggesting. In the European office, they're about four or five times what we are suggesting.

Other fees are punitive, and I will repeat that they are meant to be punitive, not to collect revenue, Mr. Chairman, but to discourage behavior that is crippling our ability to provide a quality and timely patent.

Our agency does not have the luxury of sitting back and waiting for fee diversion to end. Diversion is an issue that Congress and the Administration are discussing. They will continue those discussions.

However, the U.S.P.T.O. must move forward now, not tomorrow, to give American intellectual property the protection it deserves.

Our plan is the only existing plan that addresses all the challenges facing our agency and does it within the expectations set before us by the Congress and by the President.

Mr. Chairman, Franklin Roosevelt once said, "Try something. If it doesn't work, try something else. But try something." I throw that quote in to appeal to my friends on the other side of the aisle.

Mr. Chairman, through this plan, we're trying to try something. If it doesn't work, we'll try something else. But we must try something. And this is a starting point for that discussion.

Thank you, Mr. Chairman.

[The prepared statement of Judge Rogan follows:]

PREPARED STATEMENT OF JAMES E. ROGAN

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to appear before you once again to discuss the future of the United States Patent and Trademark Office (USPTO). As always, Mr. Chairman, it is a pleasure to work with you, Ranking Member Berman, and the other members of the Subcommittee on the array of intellectual property issues which are so vital to our nation's economic security.

A little over three months ago, this Subcommittee conducted an important oversight hearing on the operations and funding of the USPTO. At that hearing, I described the rather grave situation that confronted the agency due to our increasingly large and complex workload. For example, an estimated seven million patent applications are currently pending in the world's examination pipeline, and the annual workload has been growing at a rate of 20–30 percent. Because of this unprecedented growth, patent pendency rates in the United States now average over two years, and without significant changes to our method of processing applications, data shows pendency soon will reach three to four years. The backlog of unexamined patent applications continues to grow as well. We currently have a backlog of approximately 400,000 applications, and this year we project we will receive a total of 340,000 new patent applications. To complicate matters, the technologies we are examining are increasingly complex, with applications sometimes accompanied by the equivalent of millions of pages of supporting data.

At the April oversight hearing, I indicated that these trends might necessitate fundamental changes in the way USPTO operates if we are to accomplish our mission in a timely and quality-focused manner. To that end, earlier this year I initiated an aggressive top-to-bottom review of the agency to identify new and possibly nontraditional ways to improve quality and reduce pendency. Today I am pleased to report that, after a considerable team effort, that review is now complete. Most importantly, based upon our review, we have put forward a comprehensive plan—the 21st Century Strategic Plan—to transform the USPTO into a quality-focused, highly productive, responsive organization supporting a market-driven intellectual property system. This Plan will boost productivity and substantially cut the size of the USPTO's inventory while transforming the agency into an information age, e-commerce based organization that reflects the values of President Bush's Management Agenda.

In proposing this plan, Mr. Chairman, the USPTO has stepped up to the plate and heeded the calls of the Administration, Congress, the owners of intellectual property, the patent bar, and the public-at-large to boldly address the challenges of improving quality, reducing pendency, and promptly implementing e-Government. Not surprisingly, the 21st Century Strategic Plan is not without controversy. It challenges the status quo and is far-reaching. I submit, however, that anything less would fall woefully short of what the times demand. Furthermore, it is the only existing plan that addresses all of the challenges facing the agency, and does so within the expectations articulated by Congress and the Administration.

The 21st Century Strategic Plan is the USPTO's roadmap for creating, over the next five years, an agile and productive organization fully worthy of the unique leadership role the American intellectual property system plays in the global economy. The Plan is predicated on behavioral changes within the USPTO and a willingness to embrace change among all players in the intellectual property system.

The Plan is intended to incorporate the best ideas of American inventors and creators, as well as our counterparts in other industrialized countries. It takes a global

perspective by envisioning the patent and trademark systems of the future that American innovators will need to remain competitive around the world. It is built on the premise that American innovators need to obtain enforceable intellectual property rights here and abroad as seamlessly and cost-effectively as possible. The Plan emphasizes the need for the USPTO to collaborate with other intellectual property organizations in automation, global patent classification, and mutual reliance on search results.

The 21st Century Strategic Plan pursues three main objectives. First, make USPTO's processes simpler, faster, and more accurate. Second, listen more closely to the voices of USPTO applicants and to the demands of the national and global marketplaces. Third, be *more* productive while hiring 2,500 fewer examiners than was proposed under the 2003 Business Plan—and spending half a billion dollars less than originally planned.

The new initiatives in our Strategic Plan are targeted toward timeliness, e-Government, employee development and competitive sourcing—all with a central quality focus. If Congress provides the USPTO with the funding and statutory changes necessary to implement this new strategy, the Plan will:

- Enhance the quality of patent and trademark examining operations through consolidation of quality assurance activities in fiscal year (FY) 2003.
- Transition from paper to e-government processing for trademarks by October 1, 2003.
- Accelerate deployment, by leveraging outside resources, of a fully operational system to process patent applications electronically by the end of 2004.
- Achieve an average time to first action in patent applications that is more than 50 percent lower than the time projected in the original 2003 Business Plan (i.e., in 2008 5.8 months from time of request for examination rather than 12.3 months from time of filing).
- Achieve and maintain 18 months patent pendency (from time of request for examination) by 2008, compared to over 25 months (from time of filing) in the 2003 Business Plan.
- Reduce total patent examiner hires through FY 2008 by 2,500 compared to the 2003 Business Plan projection. We still plan to hire 3,000 examiners through FY 2008, but Congress has made clear that our hiring goals in the 2003 Business Plan were unrealistic.
- Competitively source classification and search functions, thereby concentrating Office expertise as much as possible on the core examination functions.
- Expand our bilateral and multilateral discussions to strengthen intellectual property rights globally and, through work sharing, reduce duplication of effort among major industrial offices.

Here are some specifics on the Plan's initiatives for improving quality and reducing pendency.

Quality must permeate every action taken by every employee of the USPTO. Accordingly, this Plan will assure quality by hiring the people who make the best patent and trademark examiners, certifying their knowledge and competencies throughout their careers at the USPTO, and focusing on quality in all aspects of the examination of patent and trademark applications. In addition, current quality assurance programs will be enhanced by integrating reviews to cover all stages of examination. For example, quality will be engineered into our processing, including the selective expansion of the "second-pair-of-eyes" review in advanced fields such as semiconductors, telecommunications, and biotechnology. A statistically meaningful sample of all first actions and final actions will be pulled on a continuous basis and reviewed for quality and correctness, and information regarding examination errors will be used for training and continuous quality improvement actions. We believe these initiatives will bolster confidence in the quality of U.S. patents and trademarks, thereby spurring our economy and reducing litigation costs.

With respect to pendency, the 21st Century Strategic Plan would ensure a steady 18-month average examination duration time for patents—by far the fastest in the world—and a 12-month pendency time for trademarks. This will be accomplished through a radical redesign of the entire patent search and examination system based upon four examination tracks, greater reliance on outside searches, and variable, incentive-driven fees. Likewise, trademarks will restructure the way it does business to be compatible with an e-Government environment.

For patents, the single-track examination process will be replaced by four examination options that leverage search results of other organizations and permit appli-

cants to choose the timing of the processing of their applications. As part of this new process, the current basic filing fee (which now covers both the search and the examination) will be replaced with a filing fee and separate examination fee. This will allow applicants to file an application and delay deciding whether to request examination for as long as 18 months from the earliest U.S. filing date, giving them time to obtain a commercially provided search regarding patentability and to decide whether the application has sufficient commercial value to justify the costs of having an application examined. This change will eliminate duplication of effort, encourage greater participation by the applicant community and public, improve the quality of patents, and decrease processing time. Indeed, we anticipate that requiring a separate request for examination and a separate examination fee could create a pre-examination “dropout” rate of about 10 percent of all applications. It should be noted that this figure is a conservative estimate, and other industrial property offices have even higher dropout rates. However, only actual experience with the new system will show how much currently needless work will be saved.

In order to achieve greater examiner productivity and reduce pendency, the Plan also calls for outsourcing search and classification processes using USPTO-certified search and classification firms and international patent searches. With approximately 45 percent of the USPTO's applications coming from foreign applicants who have filed in other patent offices first, this initiative will enable us to leverage the work product from those other offices. This will result in increased productivity for the USPTO and reduce the Office's need to hire additional patent examiners.

In addition to separate filing and examination fees, other proposed revisions to our fee structure in fiscal year 2003 include charging higher fees for longer applications with more claims and charging less for shorter applications with limited claims. Patent applicants also will be given a new market-driven “rocket docket” option of choosing an accelerated examination procedure with priority processing and a pendency time of no longer than 12 months. We are still finalizing the details for the “rocket docket” process, however, so this option is not part of our proposed FY 2003 fee legislation.

Let me make two important points on the proposed fee changes. First, enactment of our proposed FY 2003 fee legislation, while laying the groundwork for reforms of the examination system such as four-track examination, only directly impacts our fee structure. Separate legislation will need to be enacted next year in order to fully institute the needed changes to the examination system. Second, the Plan's proposed USPTO fee schedule compares quite favorably with the fee schedules at other major industrial property offices. For example, equivalent filing, issue and maintenance fees in the European Patent Office and the Japan Patent Office would be approximately \$54,000 and \$24,000, respectively, compared to our proposal of \$12,000.

Once the 21st Century Strategic Plan is implemented, market forces will drive our business model. Fees will remain steady for the foreseeable future. Geography and time will be irrelevant when doing business with the USPTO. We will strengthen our ability to be ranked as one of the highest quality, most-efficient intellectual property organizations in the world. Our products and services will be tailored to meet the needs of customers. Examination will be our core expertise. U.S. industry and the public will benefit from stronger, more enforceable intellectual property rights worldwide. Our workplace will become a state-of-the art facility designed for the 21st Century.

The 21st Century Strategic Plan will create a nimble, flexible enterprise that responds rapidly to changing market conditions. Under the Plan, we will make the USPTO a premier place to work; we will rely on a cadre of highly trained and skilled employees; and we will place greater reliance on the private sector, including drawing on the strengths of the information industry. We will enhance the quality of work life for our employees by exploring expansion of work-at-home opportunities and moving to the new Carlyle campus facility in Alexandria, Virginia. In addition, we will establish alliances with our friends in other national and international intellectual property organizations to strengthen American intellectual property rights around the world.

This Strategic Plan reflects both a thorough internal process review and a systematic attempt to incorporate the best thinking of our applicants, USPTO career experts, and the experiences and best practices of intellectual property offices in other countries. We are grateful for the wisdom and experience of the many individuals who contributed to the Plan's development, and for the candor and positive spirit of representatives of industry groups and other associations who shared their views. Key stakeholders also include our dedicated employees, without whose commitment

the Strategic Plan could not have been developed and its success could not be assured.

This Strategic Plan is only the first step toward creating a quality-focused, highly productive, responsive USPTO that supports a market-driven intellectual property system for the 21st Century. Once the initial phases of this Plan have been supported, adopted and implemented, the USPTO will explore further options to enhance its ability to operate more like a business.

We intend to refine and update our Strategic Plan periodically to adjust to changing conditions and to incorporate the best thinking of the entire intellectual property community. We are eager to work with those who believe, as we do, that American innovators and businesses must have the very best intellectual property system in the world. This 21st Century Strategic Plan represents an important first step in the pursuit of this goal.

Mr. Chairman, the 21st Century Strategic Plan is yet another manifestation of the Bush Administration's firm commitment to ensuring that the USPTO continues to lead the world in producing the most timely and reliable intellectual property rights protection for American innovators. I am hopeful that the continued support of the members of this Subcommittee, coupled with the Administration's dedication to our agency, will enable the USPTO to meet the challenges that lie ahead.

Implementation of the 21st Century Strategic Plan will not be painless. It will require new ways of thinking among USPTO employees and our users. It will depend upon our ability to streamline operations and the enactment of President Bush's budget request to fund these needed changes. It will require revisions to current rules. It also will require congressional support for enacting legislation relating to our fee schedule and examination system.

Change is never easy, and there are those who say that they cannot support a fee increase until USPTO is allowed to retain all of its fee revenue. The USPTO does not have the luxury of sitting back and waiting for that to occur. As many have stated before this Subcommittee, the Office is in crisis and bold action is needed.

Mr. Chairman, we have embraced the counsel of many and put forth an innovative, comprehensive plan for the future. We have upheld our end of the bargain. As noted earlier, the 21st Century Strategic Plan is the only plan that exists that addresses all of the challenges facing the Office and does so within the constraints imposed by Congress and the Administration. However, it is only a first step, and it must remain a continual work in progress. President Franklin D. Roosevelt once said: "Try something; if it doesn't work, try something else. But for goodness sake, try something." We have heeded that advice. If aspects of the Plan fail to meet expectations, we will say so and try something else. But failure to try is no longer an option.

We need the support of this Subcommittee and of our user community to ensure the USPTO can do the job our Founding Fathers intended us to do: make the USPTO the world's premier intellectual property office. This Plan offers a modern day roadmap to remain faithful to their vision.

**UNITED STATES PATENT AND TRADEMARK OFFICE
REAUTHORIZATION ACT, FISCAL YEAR 2003
PURPOSE AND NEED FOR PROPOSED STATUTORY CHANGES TO 35 U.S.C. 41 – FEES**

The proposed statutory changes to patent fees in section 41 of title 35, United States Code, and the authorization to change trademark fees to levels in excess of the increase in the Consumer Price Index over the last twelve months, provide an alternative to the surcharges proposed in the President's 2003 budget proposal for the U.S. Patent and Trademark Office (USPTO), and would still generate the levels of patent and trademark fee income reflected in that budget even though the USPTO has received fewer patent and trademark application filings than the estimates on which the 2003 budget was based and, therefore, a corresponding reduction in fee income.

The President's 2003 budget proposes a 19.3 percent surcharge on all patent fees and a 10.3 percent surcharge on trademark fees to cover necessary costs to fund the USPTO's long-term quality, e-Government, and pendency initiatives, and to pay the full Government share of the accruing cost of retirement for current CSRS employees and post-retirement health benefits for current civilian employees. Private sector interests oppose the use of surcharges because such surcharges do not reflect accurately the costs of the particular services for which the fees are paid. The proposed fee changes in this legislation provide an alternative to the surcharges, an alternative that reflects more accurately the costs of the services provided. The alternative would produce income levels equivalent to the 2003 budget proposal, taking into account the reductions in patent and trademark application filings. The resulting revenues will ensure that there was no delay in the implementation of the USPTO's new initiatives aimed at improving the quality of granted patents and trademark registrations, increasing efficiency through e-Government programs, and reducing pendency in processing applications for patents and for registration of trademarks.

The proposed changes to section 41 also will initiate a restructuring of patent fees by, among other things, providing a separate filing fee and an examination fee, rather than the composite fee currently charged. This change will provide patent applicants with a reduced filing fee and an opportunity to evaluate the commercial value of their invention before having to pay a fee to cover the cost of patent examination. This change also will eliminate the need for the USPTO to examine all patent applications, regardless of whether the applicant determines that its invention is of sufficient commercial value to justify prosecuting its application.

It is critical that the proposal be given expedited treatment, since the changes need to be in place by the beginning of fiscal year 2003. The Office of Management and Budget has no objection from the standpoint of the Administration's program to the submission of this legislative proposal to the Congress.

FEE LEGISLATION

SEC. 1. SHORT TITLE.

This Act may be cited as the United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003.

SEC. 2. FEES FOR PATENT SERVICES.

(a) GENERAL PATENT FEES.—Section 41 of title 35, United States Code, is amended by striking subsection (a) and inserting the following:

“(a) The Director shall charge the following fees and surcharges—

“(1) FILING AND BASIC NATIONAL FEES.—

“(A) On filing each application for an original patent, except for design, plant, or provisional applications, \$300.

“(B) On filing each application for an original design patent, \$130.

“(C) On filing each application for an original plant patent, \$200.

“(D) On filing each provisional application for an original patent, \$160.

“(E) On filing each application for the reissue of a patent, \$300.

“(F) The basic national fee for an international application entering the national stage under section 371 of this title, \$300.

“(G) In addition, the surcharge as prescribed by the Director for any application the specification and drawings of which exceed 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium).

“(2) EXCESS CLAIMS FEES.—

“(A) INDEPENDENT CLAIMS.—On filing in an application or on presentation at any other time of a claim in independent form in excess of 3—

“(i) For a 4th claim in independent form, \$160;

“(ii) For a 5th claim in independent form, \$320;

“(iii) For a 6th claim in independent form, \$640; and

“(iv) For each claim in independent form in excess of 6, 125 percent of the fee specified in this subparagraph for the previous claim in independent form.

“(B) TOTAL CLAIMS.—On filing in an application or on presentation at any other time of a claim (whether dependent or independent) in excess of 20—

“(i) For each claim in excess of 20 but not in excess of 25, \$80;

“(ii) For each claim in excess of 25 but not in excess of 30, \$160;

“(iii) For each claim in excess of 30 but not in excess of 35, \$320;

“(iv) For each claim in excess of 35 but not in excess of 40, \$640; and

“(v) For each claim in excess of 40, by groups of 5 claims, 125 percent of the fee specified in this subparagraph for each claim in the previous group of 5 claims.

“(C) For each application containing a multiple dependent claim, \$280. For purpose of computing fees, a multiple dependent claim as referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made.

“(D) The Director may, by regulation, provide for a refund of the fee specified in subparagraphs (A) or (B) for any claim or claims that are cancelled as the result of a requirement for restriction under section 121 of this title.

“(E) Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

“(3) RELATED APPLICATION SURCHARGE.—

“(A) The surcharge as prescribed by the Director for filing an application that contains or is amended to contain a specific reference to an earlier filed application or applications under section 120, 121, or 365(c) of this title.

“(B) The surcharge as prescribed by the Director for an application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in another pending application or patent.

“(C) Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

“(4) EXAMINATION FEES.—

“(A) On filing a request for examination of an application for an original patent, except for a design or plant application, or of an application for the reissue of a patent, \$1250.

“(B) On filing a request for examination of an application for an original design patent, \$560.

“(C) On filing a request for examination of an application for an original plant patent, \$860.

“Upon payment of the fee required by this paragraph in an application for a patent, except for provisional applications, the application shall be examined in accordance with chapter 12 of this title, but if the fee required by this paragraph is not paid within such period and under such conditions as may be prescribed by the Director, the application shall be regarded as abandoned. The Director may, by regulation, reduce the fee specified in this paragraph for independent inventors who meet the conditions prescribed by the Director, and for applicants who provide a search report that meets the conditions prescribed by the Director.

“(5) ISSUE FEES.—

“(A) For issuing each original patent, except for design or plant patents, or each reissue patent, \$1660.

“(B) For issuing each original design patent, \$600.

“(C) For issuing each original plant patent, \$810.

“(6) DISCLAIMER FEE.—On filing each disclaimer, \$110.

“(7) APPEAL FEES.—

“(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, \$520.

“(B) In addition, on filing a brief in support of the appeal, \$1730, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, \$460.

“(8) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for unintentionally delayed response by the patent owner in any reexamination proceeding, \$1280, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be \$110.

“(9) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

“(A) On filing a first petition, \$140;

“(B) On filing a second petition, \$520;

“(C) On filing a third or subsequent petition, \$1200.”.

(b) **PATENT MAINTENANCE FEES.**—Section 41 of title 35, United States Code, is amended by striking subsection (b) and inserting the following:

“(b) The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980—

“(1) 3 years and 6 months after grant, \$900.

“(2) 7 years and 6 months after grant, \$3000.

“(3) 11 years and 6 months after grant, \$5000.

“Unless payment of the applicable maintenance fee is received in the U.S. Patent and Trademark Office on or before the date the fee is due or within a grace period of six months thereafter, the patent will expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.”.

(c) **APPLICATION OF SMALL ENTITY FEE REDUCTION.**—

Section 41(h)(1) of title 35, United States Code, is amended by adding at the end thereof the following sentence:

“The provisions of this paragraph shall not apply to the fees charged under subsection (a)(4).”.

SEC. 3. EFFECT ON PATENT TERM ADJUSTMENT.

The 14-month period specified in section 154(b)(1)(A) and the 3-year period specified in section 154(b)(1)(B) of title 35, United States Code, shall be measured from the date on which the examination fee specified in section 41(a)(4) of title 35, United States Code, was paid.

SEC. 4. EFFECTIVE DATE, APPLICABILITY, AND TRANSITION.

(a) **EFFECTIVE DATE AND APPLICABILITY.**—

(1) The amendments made by section 2 shall take effect on October 1, 2002, and shall apply to all patents, whenever granted, and to all applications pending on or filed after October 1, 2002, except that the fees specified in sections 41(a)(1) and 41(a)(4) of title 35, United States Code, shall apply only to all applications for patent filed under section 111 of title 35, United States Code, on or after October 1, 2002, and to all international applications entering the national stage after compliance with section 371 of title 35, United States Code, on or after October 1, 2002.

(2) Section 3 shall take effect on October 1, 2002 and, except for design patent applications filed under chapter 16 of title 35, United States Code, shall apply to all applications for patent filed under section 111(a) of title 35, United States Code, and to all international applications in which the national stage is commenced under section 371(b) or (f) of title 35, United States Code, on or after October 1, 2002.

(3) The surcharges provided for in sections 41(a)(1)(G) and 41(a)(3) of title 35, United States Code, shall not take effect until at least 30 days after the date on which notice of the surcharge is published in the Federal Register.

(4) The time period and conditions prescribed by the Director under section 41(a)(4) of title 35 United States Code, shall take effect on the day following the date on which notice of such time period and conditions is published in the Federal Register.

(b) TRANSITIONAL PROVISIONS.—

(1) Between October 1, 2002 and the effective date of the surcharge provided for in section 41(a)(3)(A) of title 35, United States Code, the Director shall charge—

(A) For each application that contains or is amended to contain a specific reference to 3 earlier filed applications under section 120, 121, or 365(c) of title 35, United States Code, \$1000;

(B) For each application that contains or is amended to contain a specific reference to 4 earlier filed applications under section 120, 121, or 365(c) of title 35, United States Code, \$2000;

(C) For each application that contains or is amended to contain a specific reference to 5 earlier filed applications under section 120, 121, or 365(c) of title 35, United States Code, \$4000;

(D) For each application that contains or is amended to contain a specific reference to 6 or more earlier filed applications under section 120, 121, or 365(c) of title 35, United States Code, \$8000 for each application in excess of 5 to which the application contains or is amended to contain a specific reference under section 120, 121, or 365(c) of title 35, United States Code.

(2) Between October 1, 2002 and the effective date of the surcharge provided for in section 41(a)(3)(B) of title 35, United States Code, the Director shall charge—

(A) For each application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in 1 other pending application or patent, \$10,680;

(B) For each application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in 2 other pending applications or patents, \$13,350;

(C) For each application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in 3 other pending applications or patents, \$16,690; and

(D) For each application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in 4 or more other pending applications or patents, 125 percent of the fee set forth in this paragraph for an application that contains or is amended to contain 1 or more claims that are not patentably distinct from 1 or more claims in 1 fewer other pending applications or patents.

(3)(A) Between October 1, 2002 and the effective date of the time period and conditions prescribed by the Director under section 41(a)(4) of title 35, United States Code, the examination fee specified in section 41(a)(4) shall be accompanied by a request in writing for examination of the application and, except as provided in subparagraphs (B) through (D), shall be paid within 18 months from the date on which the application was filed in the United States, or if the application contains a specific reference to an earlier filed application or applications under section 119(e), 120, 121, or 365(c) of title 35, United States Code, 18 months from the date on which the earliest such application was filed.

(B) In any original application filed under section 111(a) of title 35, United States Code, except for a design patent application filed under chapter 16, of title 35, United States Code, that contains a specific reference to an earlier filed application or applications under section 119(e), 120, 121, or 365(c) of title 35, United States Code, the examination fee specified in section 41(a)(4) shall be paid either within the period specified in subparagraph (A) or within the period and under the conditions prescribed by the Director under section 111(a)(3) of title 35, United States Code, for payment of the fee for filing the application.

(C) In any application for the reissue of a patent filed under section 251 of title 35, United States Code, and in any original design patent application filed under chapter 16 of title 35, United States Code, the examination fee specified in section 41(a)(4) shall be paid within the period and under the conditions prescribed by the Director under section 111(a)(3) of title 35, United States Code, for payment of the fee for filing the application.

(D) In any international application, the examination fee specified in section 41(a)(4) shall be paid by the date on which the national stage commenced under section 371(b) or (f) of title 35, United States Code.

SEC. 5. ADJUSTMENT OF TRADEMARK FEES

For fiscal year 2003, the Director may adjust fees established under section 31 of the Trademark Act of 1946 by amounts in excess of fluctuations during the preceding 12 months in the Consumer Price Index, as determined by the Secretary of Labor, without regard to any other provision of law.

SECTION-BY-SECTION ANALYSIS

SECTION ONE

Section One sets forth the short title of the bill, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003."

SECTION TWO.

Section Two prescribes the dollar amounts for certain corresponding "general" patent and patent application fees set forth in 35 U.S.C. § 41(a) and (b) and authorizes the Director to require payment of a surcharge in certain situations. Section 41(a) now specifies an examination fee (paragraph 4) that is separate from the filing fee (paragraph 1). Under § 41(a), the applicant in an original application (other than a provisional or design application) would pay the filing fee on filing (or shortly thereafter), but may delay requesting examination and paying the examination fee for eighteen months from the application's earliest effective United States filing date (or a period specified in the USPTO's regulations). Separate fees for filing and examination will give the applicant time to determine whether the invention claimed in the application has sufficient commercial viability to make it worthwhile to pay the fee to proceed with examination, and will obviate the need for the USPTO to examine applications where the applicant has determined that the invention does not have sufficient commercial viability to pay the fee to proceed with examination of the patent application.

Section 41(a)(1) sets out the filing fees for applications filed under § 111 of the patent law (original or reissue) and the basic national fee for Patent Cooperation Treaty (PCT) international applications entering the national stage under § 371 of the patent law.

Under § 41(a)(1), the filing fees for applications filed under § 111 are as follows: The filing fee for an application for an original patent, except for design, plant, or provisional applications, is \$300. The filing fee for an application for an original design patent is \$130. The filing fee for an application for an original plant patent is \$200. The filing fee for a provisional application is \$160. And, the filing fee for an application for the reissue of a patent is \$300.

Under § 41(a)(1), the basic national fee for any PCT international application entering the national stage under § 371 is \$300.

Under § 41(a)(1), the Director is also authorized to prescribe a surcharge for any application whose specification and drawings exceed 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium). It is to be recalled that the Senate Report Language for the USPTO's fiscal year 2002 appropriation:

"The Committee further directs that the "electronic file wrapper" be fully implemented by the end of fiscal year 2004." Senate CJS Sub-C 7-19-01.

Section 41(a)(2) sets out excess claims fees each independent claim in excess of 3 and for each claim (whether dependent or independent) in excess of 20. The excess claims fees increase progressively as the number of claims increases to encourage applicants to file excess claims only when necessary for adequate protection of the invention.

Under § 41(a)(2)(A), the excess claims fee for a 4th claim in independent form is \$160, the additional excess claims fee for a 5th claim in independent form is \$320, and the additional excess claims fee for a 6th claim in independent form is \$640. Under § 41(a)(2), the additional excess claims fee for each claim in independent form in excess of 6 is 125 percent of the excess claims fee for the previous claim in independent form. For example, the additional excess claims fee for a 7th claim in independent form is \$800, the additional excess claims fee for an 8th claim in independent form is \$1,000, and the additional excess claims fee for a 9th claim in independent form is \$1,250.

Under § 41(a)(2)(B), the excess claims fee for each claim (whether dependent or independent) in excess of 20 but not in excess of 25 is \$80, the additional excess claims fee for each claim in excess of 25 but not in excess of 30 is \$160, the additional excess claims fee for each claim in excess of 30 but not in excess of 35 is \$320, and the additional excess claims fee for each claim in excess of 35 but not in excess of 40 is \$640. Under § 41(a)(2)(B), the additional excess claims fee for each claim in excess of 40, by groups of 5 claims, is 125 percent of the excess claims fee for each claim in the previous group of 5 claims. For example, the additional excess claims fee for each claim in excess of 40 but not in excess of 45 is \$800, the additional excess claims fee for each claim in excess of 45 but not in excess of 50 is \$1,000, and the additional excess claims fee for each claim in excess of 50 but not in excess of 55 is \$1,250.

Under § 41(a)(2)(C), the fee for each application containing a multiple dependent claim is \$280. For the purpose of computing fees, a multiple dependent claim as referred to in section 112 of the patent code or any claim depending therefrom is considered as separate dependent claim in accordance with the number of claims to which reference is made.

Under § 41(a)(2)(D), the Director may, by regulation, provide for a refund of the excess claims fee for any claim or claims that are canceled as the result of a requirement for restriction under section 121 of the patent code.

The Director may prescribe the time when the excess claims fees required by § 41(a)(2) must be paid. For example, the Director may require that the excess claims fees required by § 41(a)(2) be paid with the filing or basic national fee under § 41(a)(1), or may permit the excess claims fees to be paid with the examination fee under § 41(a)(4). In addition, errors in payment of the additional fees under § 41(a)(2) may be rectified in accordance with regulations prescribed by the Director.

Section 41(a)(3) authorizes the Director to charge the following surcharges: The Director may require a surcharge for filing an application that contains or is amended to contain a specific reference to an earlier filed application or applications under §§ 120, 121, or 365(c) of the patent law. The Director may also require a surcharge for an application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in another pending application or patent. The phrase “not

patentably distinct” has the same connotation as it has in the context of obviousness-type double patenting, namely the surcharge is required if the application at issue contains one or more claims that would be subject to an obviousness-type double patenting rejection over one or more claims in another pending application or patent. *See, e.g., In re Berg*, 140 F.3d 1428, 46 USPQ2d 1226 (Fed. Cir. 1998), *In re Longi*, 759 F.2d 887, 225 USPQ 645 (Fed. Cir. 1985), *In re Van Ornum*, 686 F.2d 937, 214 USPQ 761 (CCPA 1982), and *In re Vogel*, 422 F.2d 438, 164 USPQ 619 (CCPA 1970). The surcharges required under this authority are expected to be established at a level that modifies applicant behavior and not at levels to just generate revenue for the USPTO. Specifically, the surcharge required under § 41(a)(3)(A) is expected to motivate the vast majority of applicants to conclude prosecution of an application in fewer than three continuing applications, and the surcharge required under § 41(a)(3)(B) is expected to motivate the vast majority of applicants to include all patentably indistinct claims in a single application despite the excess claims fees provided for in § 41(a)(2). Finally, errors in payment of the surcharges under § 41(a)(3) may be rectified in accordance with regulations prescribed by the Director.

Section 41(a)(4) sets out the examination fees for all applications (except for provisional applications), including PCT international applications entering the national stage under § 371. The examination fee for an application for an original patent, except for a design or plant application, and for any reissue application, is \$1,250. The examination fee for an original design patent is \$560. And, the examination fee for an original plant patent is \$860. The examination fee does not apply to provisional applications because a provisional application is not examined as provided in § 131 *et seq.* of the patent law. If the examination fee required by § 41(a)(4) is paid in an application (other than a provisional application), the application will be examined under § 131 *et seq.* The application, however, will become abandoned if the examination fee is not paid within such period and under such conditions as may be prescribed by the Director. The Director may require that the request for examination and fee be accompanied by a search report (as prescribed by the Director).

Under § 41(a)(4), the Director may reduce the examination fee for certain applicants. First, the Director may reduce the examination fee for independent inventors who meet certain conditions as prescribed by the Director (*e.g.*, have an income level below an amount specified in the regulations). Second, the Director may reduce the examination fee for applicants who provide a search report that meets the conditions prescribed by the Director and thus reduces the USPTO’s cost of examining the application. This provision does not authorize the Director to reduce the examination fee for applicants on an ad hoc basis, but only authorizes the Director to reduce the examination fee for applicants who meet the conditions specified in the regulations for the fee reduction.

Section 41(a)(5) sets out the fees for issuing a patent. Under § 41(a)(5), the fee for issuing each original patent, except for design or plant patents, and each reissue patent is \$1,660; the fee for issuing each original design patent is \$600; and the fee for issuing each original plant patent is \$810.

Section 41(a)(6) sets out the fee due upon filing a disclaimer under section 253 of the patent law in a patent or a patent application, which is \$110.

Section 41(a)(7) sets out the appeal fees. Under § 41(a)(7), the fee due upon filing an appeal from the examiner to the Board of Patent Appeals and Interferences is \$520; the fee due upon filing a brief in support of the appeal is an additional \$1,730; and the fee due for requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences is an additional \$460.

Section 41(a)(8) sets out the fees due upon filing a petition to revive an abandoned application or to accept a delayed response by the patent owner in a reexamination proceeding, which is \$1,280, unless the petition is filed under § 133 or § 151 of the patent law, in which case the fee is \$110.

Section 41(a)(9) sets out the fees due upon filing a petition for one-month extensions of time. Under § 41(a)(9), the fee for filing the first petition is \$140, the additional fee for filing the second petition is \$520, and the additional fee for filing the third or subsequent petition is \$1,200.

Section 41(b) sets out the fee for maintaining in force a patent based on applications filed on or after December 12, 1980. Under § 41(b), the maintenance fee due at 3 years and 6 months after grant is \$900; the maintenance fee due 7 years and 6 months after grant is \$3000; and the maintenance fee due 11 years and 6 months after grant is \$5000. Section 41(b) also provides that unless payment of the applicable maintenance fee is received in the USPTO on or before the date on which the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period, that the Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee, and that no fee may be established for maintaining a design or plant patent in force.

Section 41(h)(1) is amended to provide that the 50 percent small entity fee discount does not apply to the examination fee provided for in § 41(a)(4).

SECTION THREE

Section Three provides that the 14-month period specified in § 154(b)(1)(A)(i) of the patent law, and that the 3-year period specified in § 154(b)(1)(B) of the patent law, shall be measured from the date on which the examination fee specified in § 41(a)(4) was paid. Since the USPTO will not examine an application unless and until the examination fee has been paid, the above time frames of § 154(b) are measured from the date on which the examination fee specified in § 41(a)(4) was paid.

SECTION FOUR

Section Four sets forth the effective date of this bill: October 1, 2002. Section Four also provides that the amendments made by Section Two take effect on October 1, 2002, and shall apply to all patents, whenever granted, and to all applications pending on or filed after October 1, 2002. Since applications pending before October 1, 2002 paid filing or

basic national fees based upon former § 41(a), Section Four also provides that the filing and examination fees specified in §§ 41(a)(1) and 41(a)(4) apply only to all applications for patent filed under § 111 on or after October 1, 2002, and to all PCT international applications entering the national stage after compliance with § 371 on or after October 1, 2002. Section Four also provides that Section Three takes effect on October 1, 2002, and applies to all applications for patent filed under § 111(a) on or after October 1, 2002 (except for design applications), and to all PCT international applications in which the national stage commenced under § 371(b) or (f) on or after October 1, 2002. Section Four also provides that the surcharges provided for in §§ 41(a)(1)(G) and 41(a)(3) shall not take effect until at least 30 days after notice of the surcharge has been published in the Federal Register, and that the time period and conditions prescribed by the Director under § 41(a)(4) shall not take effect until notice of such time period and conditions has been published in the Federal Register.

Section Four also provides transitional provisions. Section Four specifically provides that between October 1, 2002 and the effective date of the surcharge provided for in § 41(a)(3)(A), the Director shall charge: (1) \$1,000 for each application that contains or is amended to contain a specific reference to 3 earlier filed applications under §§ 120, 121, or 365(c); (2) \$2,000 for each application that contains or is amended to contain a specific reference to 4 earlier filed applications under §§ 120, 121, or 365(c); (3) \$4,000 for each application that contains or is amended to contain a specific reference to 5 earlier filed applications under §§ 120, 121, or 365(c); and (4) for each application that contains or is amended to contain a specific reference to 6 or more earlier filed applications under §§ 120, 121, or 365(c), \$8000 for each such earlier filed application referenced in excess of 5. Section Four also provides that between October 1, 2002 and the effective date of the surcharge provided for in § 41(a)(3)(B), the Director shall charge: (1) \$10,680 for each pending application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in 1 other pending application or patent; (2) \$13,350 for each pending application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in 2 other pending applications or patents; and (3) \$16,690 for each pending application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in 3 other pending applications or patents. This surcharge for an application increases by 125 percent for each additional other pending application or patent that contains one or more claims that are not patentably distinct from one or more claims in the application. For example, the Director shall charge \$20,860 for each pending application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in 4 other pending applications or patents, and shall charge \$26,080 for each pending application that contains or is amended to contain one or more claims that are not patentably distinct from one or more claims in 5 other pending applications or patents.

Section Four also provides that between October 1, 2002 and the effective date of the time period and conditions prescribed by the Director under § 41(a)(4), the examination fee must be accompanied by a request in writing for examination of the application and must (except as otherwise provided) be paid within 18 months from the date on which the application was filed in the United States, or if the application contains a specific

reference to an earlier filed application or applications under §§ 119(e), 120, 121, or 365(c), 18 months from the date on which the earliest such application was filed. The examination fee must be paid either within the period specified above or within the period and under the conditions prescribed by the Director under § 111(a)(3) for payment of the filing fee for any original application filed under § 111(a), except for a design patent application filed under chapter 6 of title 35, that contains a specific reference to an application or applications under §§ 119(e), 120, 121, or 365(c). The examination fee must be paid either within the period and under the conditions prescribed by the Director under § 111(a)(3) for payment of the filing fee in any reissue application and in any design patent application. And, the examination fee must be paid by the date on which the national stage commenced under § 371(b) or (f) in any PCT international application.

SECTION FIVE

Section 115c authorizes the Director of the USPTO to adjust trademark fees for fiscal year 2003 in amounts that exceed the fluctuations of the Consumer Price Index for the preceding 12 months, without regard to any other provision of law.

Mr. COBLE. Thank you, Judge, for your comments. Thank you.
Ms. Barrett Park.

**STATEMENT OF KATHRYN BARRETT PARK, EXECUTIVE VICE
PRESIDENT, INTERNATIONAL TRADEMARK ASSOCIATION**

Ms. BARRETT PARK. Good morning, Mr. Chairman. On behalf of the over 4,100 members of the International Trademark Association, I want to thank you, Mr. Coble, particularly for your consideration in providing INTA the opportunity to share the views of America's brand owners concerning proposed increases to trademark fees at the U.S. Patent and Trademark Office.

INTA's interest in the PTO comes from the fact that trademark owners, along with our patent colleagues, supply the agency with 100 percent of its funding. In short, we are the PTO's customers, and the PTO's future is our concern.

Mr. Chairman, INTA has always been a strong supporter of a modern and efficient PTO. We worked alongside this Subcommittee, for example, to pass the American Inventors Protection Act, and we have consistently supported the PTO in its efforts to increase voluntary usage of the e-filing system and other new technologies.

INTA concurs with the statement in both the Chairman's and Congressman Meehan's opening statements that Undersecretary Rogan has showed bold leadership with the development of the new strategic plan, an endeavor that seeks to transform the agency over a 5-year period into a quality-driven, productive, and cost-effective organization that is capable of supporting an international market-based international property system.

I want to thank Undersecretary Rogan for his initiative and note our support for the concepts that lie behind the strategic plan. Our support for those concepts, however, does not mean that we are prepared at this time to endorse the trademark fee increase in section 5 of the proposed reauthorization legislation. The proposed language is so broad, it gives the Director unlimited authority to raise trademark fees in fiscal year 2003. There are no limits as to how high the fees can be raised, what fees can be raised, or how many times those fees can be raised. It is premature for the PTO to ask Congress to authorize trademark fee increases when the need for these increases has not been established.

The strategic plan has just been unveiled. The specific plan we have in front of us today is not likely to be the final product. As the plan's details are reviewed, intellectual property owners will no doubt have differences with the PTO and alternative proposals to share.

Already, INTA's members are voicing concerns about proposals to allow the Director to set response time to trademark office actions through regulation and mandatory use of certified search services in order to receive certain benefits, such as expedited examination.

There will no doubt be other issues that require discussion. We trust that the Congress also will weigh in with its own ideas and suggestions. Once it is clear exactly what elements of the plan will be adopted, we need to carefully evaluate the cost to implement those changes and the degree to which existing fees will cover that cost.

It should not be automatically assumed that a fee increase will be necessary. After all, the current fee structure reflects the cost of processing what has been predominantly a manual, paper-based system.

With the widespread implementation of technological initiatives envisioned by the strategic plan, the cost of trademark processing may decrease, leaving current fee incomes sufficient to cover the costs of the plan. Even if fee increases for PTO operations are ultimately justified, their implementation will be meaningless if the money does not stay with the agency. And I'm referring to the annual battle over the diversion of PTO user fees.

In the President's budget proposal for PTO funding for fiscal year 2003, the Administration advocated a surcharge on America's intellectual property owners that would raise an additional \$207 million in revenue, with \$162 of that \$207 million relegated to the general Treasury for disbursement elsewhere in Government.

This surcharge approach has since been replaced with the reauthorization legislation we're considering today.

Whatever the means of the proposed fee increases, there remains one inescapable reality: The Administration has not renounced its intent to fill at least part of that \$162 million revenue shortfall with PTO money. Unless controls are put in place, any PTO fee increase will provide a considerable portion of revenue to fill that gap, essentially imposing a tax on America's intellectual property owners.

While there may be a need at some point for additional revenue to support the initiatives associated with the strategic plan, we are simply not there yet. There remains much work to be done on which specific proposals will be included in the end product.

INTA and its members look forward to being part of that constructive dialogue. We need to ensure that the PTO can effectively protect America's ideas and its creativity while spending every last dollar of fee revenues to improve services to customers.

That concludes my opening statement, Mr. Chairman. I thank the Subcommittee once again for this opportunity. And I look forward to answering your questions.

[The prepared statement of Ms. Barrett Park follows:]

PREPARED STATEMENT OF KATHRYN BARRETT PARK

INTRODUCTION

Good morning, Mr. Chairman. My name is Kathryn Barrett Park and I currently serve as the executive vice president of the International Trademark Association ("INTA"). I am employed by INTA member General Electric Company as trademark counsel. As do all INTA officers, board members and committee members, I serve on a voluntary basis.

INTA is grateful for this opportunity to assist the Subcommittee on Courts, the Internet and Intellectual Property in its consideration of statutory and regulatory fee increases for trademarks that have been proposed by the U.S. Patent and Trademark Office ("PTO"). They are:

- An unlimited and potential across the board increase in all trademark fees [Statutory].
- A \$50 increase on documents submitted on paper for which an electronic form is available [Regulatory].
- An increase to reflect fluctuations in the Consumer Price Index (CPI) [Regulatory].

While we support the goals associated with modernizing the PTO and encouraging greater use of new technologies, we are opposed to these fee increases for three reasons:

- (1) The elements of the PTO's 21st Century Strategic Plan have not yet been agreed upon by the intellectual property community and Congress, and therefore the amount of money needed to implement the plan is not yet capable of ascertainment.¹
- (2) The PTO has not made a clear and convincing case that the additional money is needed to cover the cost of current services.
- (3) More importantly, we must oppose any fee increases when we know that a significant portion of the money that our members pay as a result of those increases will be siphoned off for government agencies and programs completely unrelated to the PTO. This diversion of funds is a tax on every customer of the PTO—large or small—and whether or not the programs to which PTO funds are diverted are laudable, they should not be funded in a manner that places at risk the protection afforded to America's creativity and ingenuity.

INTA

INTA is a 124-year-old not-for-profit organization comprised of over 4,100 member companies and firms. It is the largest organization in the world dedicated solely to the interests of trademark owners. The membership of INTA, which crosses all industry lines and includes both manufacturers and retailers, values the essential role that trademarks play in promoting effective commerce, protecting the interests of consumers, and encouraging free and fair competition. The members of INTA, who routinely apply for and maintain trademark registrations, along with patent filers and owners, are the customers of the PTO. The money paid to the PTO by its customers is the agency's sole source of funding. The PTO attends to its responsibilities without the assistance of a single penny of taxpayer money.²

THE PROPOSED ACROSS THE BOARD INCREASE

Section 5 of the proposed reauthorization legislation now before this subcommittee states with respect to trademarks:

*For fiscal year 2003, the Director may adjust fees under section 31 of the Trademark Act of 1946 by amounts in excess of fluctuations during the preceding 12 months in the Consumer Price Index, as determined by the Secretary of Labor, without regard to any other provision of law.*³

This broad, sweeping language, for all intents and purposes, provides a blank check for the PTO. There are no limits on how high the director may raise fees, which fees he may raise, or how many times he may raise them during FY 2003. INTA urges Congress not to sign this check. Before any additional funding is agreed upon there must be a better accounting of what precisely this money is needed for, and, if the need is established, language inserted in the legislation that specifies which fees will be raised and by how much, and a limit on the number of times the fees may be raised during the fiscal year.

The PTO states that this fee increase is required to:

- (1) More accurately reflect the costs of services provided.⁴
- (2) "[E]nsure that there [is] no delay in the implementation of the USPTO's new initiatives at improving the quality of granted patent and trademark registrations, increasing efficiency through e-Government programs, and reducing pendency in processing applications for patents and for registration of trademarks," all of which are part of the PTO's proposed 21st Century Strategic Plan.⁵

¹ See <http://www.uspto.gov/web/offices/com/strat2001/index.htm>.

² United States General Accounting Office, *Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services*, 32 (May 1997).

³ United States Patent and Trademark Office, Fee Legislation: United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003, <http://www.uspto.gov/web/offices/com/strat2001/21stCSP—Legislation.pdf>, 7 (July 5, 2002).

⁴ United States Patent and Trademark Office, Purpose and Need for Proposed Statutory Changes to 35 U.S.C. 41—Fees 1, <http://www.uspto.gov/web/offices/com/strat2001/21stCSP—Legislation.pdf>, 1 (July 5, 2002).

⁵ *Id.*

With respect to the costs of services, the PTO has not provided to its customers and, as far as we can tell, to the Congress, any detail whatsoever as to which costs are out of line with the fees now charged. As for the strategic plan, we applaud Under Secretary Jim Rogan for his strong leadership in undertaking this creative endeavor. The plan seeks to transform the agency over a five-year period into a quality-driven, productive and cost-effective organization that is capable of supporting an international market-based intellectual property system. As is noted at the outset of this statement, INTA supports these goals, and we look forward to working with the PTO to refine the details of the plan.

The strategic plan has just been unveiled, however, and consultation between the PTO and Congress and the private sector is at an early stage. At best, it is premature for the PTO to ask Congress for unfettered authority to raise trademark fees when the need for this increase has not been established. As the consultation process continues, intellectual property owners may have differences with the PTO and offer alternative proposals.⁶ We trust that the Congress will need time as well to study what the PTO has proposed and weigh in with its own suggestions.

Once it is clear what elements of the plan will be adopted, there will need to be a careful evaluation of the cost of implementing the plan and the degree to which the existing fees will cover that cost. It should not be automatically assumed that a fee increase will be necessary. After all, the current fee structure reflects the cost of processing what has predominately been a paper-based, manual system. With the widespread implementation of electronic filing and other technological and operational initiatives envisioned by the strategic plan, the costs of trademark processing may decrease, leaving current fee income sufficient to cover the costs of implementing the plan. Indeed, the strategic plan contemplates substantial savings from the move to an electronic processing system. The "Trademark E-Government" section of the plan indicates that "[i]t is anticipated that costs for handling applications and related materials, and reliance on increasing numbers of employees or contractors to handle increases in filings, will be substantially reduced as the reliance on paper disappears from internal processes."⁷ In any event, the basis for any fee increases must be specifically identified, agreed upon, and justified before Congress authorizes such an increase.

Even if fee increases for PTO operations can be justified, their implementation would be meaningless if the money raised does not stay with the agency. We are referring to the now five-year-old battle over the diversion of PTO money derived from user fees.⁸

In the president's budget proposal for PTO funding for FY 2003, the administration advocated a surcharge on America's intellectual property owners that would raise an additional \$207 million in revenue. Only \$45 million of this money would have been returned to the PTO. The remaining \$162 million would have been relegated to the general treasury for disbursement elsewhere in the government. This surcharge approach has since been replaced with the reauthorizing legislation that is now before this subcommittee.

Whatever the means of the proposed fee increases, there remains one inescapable reality: the administration has not renounced its intent to fill at least part of the \$162 million revenue shortfall in the general treasury with PTO money. Unless controls are put in place in this reauthorization bill, any PTO fee increase will provide a considerable portion of the revenue to fill that gap, again imposing a tax on America's intellectual property owners.

PROPOSED INCREASE ON PAPER FILINGS

On May 17, 2002, the PTO published a *Federal Register* notice whereby the agency proposed a \$50 increase for the submission on paper of any trademark-related documents for which an electronic form currently exists.⁹ The proposal is intended to increase use of the PTO's trademark electronic filing system, which today hovers

⁶ INTA has concerns about certain elements of the strategic plan. For example, the use of certified search services and of the ID manual in order to obtain expedited examination at the lowest cost, and the ability of the director to set response times through regulation, to name a few.

⁷ See <http://www.uspto.gov/web/offices/com/strat2001/index.htm> at T-02.

⁸ In FY 2002, as a result of "scoring," approximately \$44 million of PTO revenue was diverted. The president's proposed budget for that year, asked for a withholding of \$207 million in PTO money to be used as "offsetting collections" to be made available for other government programs." (Note, *PTO Funding Clears House Without Amendment on Drug Patents*, 140 Bureau of National Affairs: Regulation, Law and Economics A4 (July 23, 2001)). For FY 2001, the final number was \$116 million. The then administration proposed a diversion of \$113 million. (See Note, *House Refuses to Restore Funding Cut to Patent and Trademark Office*, 124 Bureau of National Affairs A10, 11 (June 27, 2000)).

⁹ 67 Fed. Reg. 35081 (2002).

at around 30 percent. The agency has indicated that its goal is to reach an 80 percent e-filing rate by October 1, 2003.¹⁰

INTA is on record both with this subcommittee and the PTO in supporting greater use through voluntary means of new technologies to improve trademark office operations, and in our response to the PTO's notice we said that we remain "firmly committed" to such a course.¹¹ Nevertheless, we oppose the PTO's \$50 fee increase. The proposed \$50 increase for paper filings is unsupportable both from a budgetary and statutory standpoint. These substantive issues are addressed below.

Budgetary

The current fee structure became effective in January 2000 and resulted in increases to a number of fees, including the basic filing fee, which rose from \$245 to \$325 per class. According to the PTO, these changes were needed to reduce pendency, reduce backlog, hire more trademark examiners, and to "fully cover the costs of trademark operations."¹² It is clear that these fees were based on the cost of examining paper documents, since at that time, e-filing had not yet reached even 20 percent and the overwhelming majority of trademark-related documents received by the PTO were on paper.

The notice published by the PTO states that the proposed \$50 paper processing fee "reflects the additional average cost of processing a paper document rather than an electronic document within the trademark operation."¹³ But, the notice does not state that this \$50 is above and beyond the current cost recovery model. If, hypothetically, this were the case, current trademark operations would be operating at a significant deficit, since roughly 70 percent of the trademark-related documents received by the PTO are still on paper. There is nothing in the notice to suggest such a circumstance exists. Indeed, it is more plausible that the cost of examining an electronic trademark application represents a cost-savings for the PTO. Because the PTO is supposed to operate on a dollar-for-dollar basis, those savings should be passed on to the customer—the trademark owner—through a reduction in fees for electronically filed documents.

We therefore conclude, based on the information provided in the notice, that the proposal is inconsistent with the agency's well-established dollar-for-dollar cost recovery business model. We can only assume that the money that would be raised through this increase would be vulnerable to diversion during the appropriations process.

Statutory

Beyond the lack of merit associated with the proposed \$50 increase, there is also the issue of the PTO circumventing Congress in proposals to raise established fees. The Lanham Act only authorizes the PTO director to adjust established fees to reflect fluctuations in the CPI; to fully cover the costs of trademark operations for any other reason, he must first seek authorization from the Congress.¹⁴

Trademark owners strongly believe that the imposition of the \$50 charge would de facto adjust already established fees for existing services. If, for example, the PTO proposal were to go into effect tomorrow, a trademark owner filing a paper application for examination, an existing service, would pay \$375, an amount which is \$50 above the established \$325 fee. That is a fee increase. It is greater than an adjustment due to the CPI and, as we indicated above, only Congress can authorize such an increase.¹⁵

¹⁰United States Patent and Trademark Office, FY 2003 Budget Submission of the President, 22 (February 2002).

¹¹See INTA Statement, Before the Subcommittee on Courts, the Internet and Intellectual Property (April 11, 2002); Testimony of Nils Victor Montan, President of INTA, Before the Subcommittee on Courts, the Internet & Intellectual Property (June 7, 2001); and INTA submission in response to August 30, 2001 PTO notice of proposed rulemaking on Electronic Submission of Applications for Registrations and Other Documents (October 12, 2001) ("INTA supports the trend of increased e-filing usage and believes that the PTO should continue to encourage, but not require, members of the trademark bar to use the automated system."). A copy of the INTA response to the proposed \$50 increase on paper documents is attached to this statement as Appendix 1.

¹²64 Fed. Reg. 67775 (1999).

¹³67 Fed. Reg. 35081 (2002).

¹⁴15 U.S.C. § 1113(a) states that the director may by regulation adjust established fees only insofar as the adjustment reflects fluctuations in the Consumer Price Index (CPI). Anything beyond that requires congressional authorization (See, e.g. P.L. 106-113).

¹⁵The statutes cited in the notice, 35 U.S.C. § 2 and 15 U.S.C. § 41, as amended, do not refer in any way to the director's ability to set fees. Section 41 of 15 U.S.C. establishes the Federal Trade Commission, and 35 U.S.C. § 2, which lists the "Powers and Duties" of the PTO, makes

Today, America's brand owners ask their Members of Congress to join with them for the reasons stated above in opposing the proposed regulatory fee increase on trademark-related documents that are submitted on paper. We strongly urge Congress to exercise its oversight role and prevent the PTO from taking an action by rulemaking, namely increasing certain filing fees by \$50, that is clearly outside of the rulemaking authority of the PTO and that continues to rest within the law-making authority of Congress.

CONSUMER PRICE INDEX INCREASE

On May 7, 2002, the PTO published a Federal Register notice whereby the agency proposed to increase the basic filing fee for trademarks from \$325 per class to \$340 per class to reflect fluctuations in the CPI. On June 4, INTA submitted its response in opposition to the proposed increase, once again citing the likelihood that a substantial part, if not all, of the funds raised through the increase would be diverted for non-PTO uses, and thus not available to PTO to enhance PTO technology, improve the quality of examination, and prepare for new initiatives such as the Madrid Protocol.¹⁶

CONCLUSION

Thank you, once again, Mr. Chairman, for the opportunity to present INTA's views on the trademark-related fee changes proposed by the PTO. We urge this subcommittee to reject the PTO's proposed legislation to increase trademark fees across the board and to join with trademark owners in opposing proposed regulatory changes to the trademark fee structure for the reasons set forth above.

no reference whatsoever to the ability of the agency to adjust fees. The general rule of construction indicates that if Congress deliberately enumerated specific powers, they necessarily intended to limit the powers to those enumerated. The same can be said of 35 U.S.C. § 3 and 35 U.S.C. § 41, to which the PTO directed us after we raised initial concerns regarding statutory authority to raise fees. The statute entitled "Patent fees; patent and trademark search systems," 35 U.S.C. § 41, does exactly what the title says; it sets patent fees and says that the director can charge for access to automated search systems, but mentions nothing with regard to general rule-making authority concerning trademarks. Section 3 of 35 U.S.C. merely establishes the officers of the PTO, but, as with 35 U.S.C. § 41, mentions nothing with regard to the rule-making authority of the director. Nor does this statute address the director's ability to establish fees.

¹⁶See Appendix 2 of this statement.



International Trademark Association

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APPENDIX 1

Via Electronic Mail

June 14, 2002

Commissioner for Trademarks
2900 Crystal Drive
Arlington, VA 22202-3513

Attention: Craig Morris

Re: Fifty-Dollar Processing Fee for Use of Paper Forms for Submission of Applications for Registration and Other Documents

The International Trademark Association ("INTA"), the largest organization in the world dedicated solely to the interests of trademark owners with, over 4,000 members, hereby states its opposition to the referenced proposed rule made public by the U.S. Patent and Trademark Office ("PTO") in the May 17, 2002 *Federal Register*. INTA remains firmly committed to fostering greater use of the PTO's trademark e-filing system because of the obvious benefits, many of which are listed in the *Federal Register* notice ("notice"). However, we believe the proposed \$50 increase for paper filings is unsupportable both from a budgetary and statutory standpoint. A better approach would be for the PTO to seek approval from Congress for an incentive to trademark owners to use the e-filing system through a reduction in the existing fees.

The current fee structure became effective in January 2000 and resulted in increases to a number of fees, including the basic filing fee, which rose from \$245 to \$325 per class. Changes were needed to reduce pendency, reduce backlog, hire more trademark examiners, and to "fully cover the costs of trademark operations." 64 Fed. Reg. 67775 (1999). It is clear that these fees were set based on the cost of examining paper documents, since at that time, e-filing had not yet reached 20 percent and the overwhelming majority of trademark-related documents received by the PTO were on paper.

The current notice published by the PTO states that the proposed \$50 paper-processing fee "reflects the additional average cost of processing a paper document rather than an electronic document within the trademark operation." P. 35081. But, the notice does not state that this \$50 is above and beyond the current cost recovery model. If, hypothetically, this were the case, current trademark operations would be operating at a significant deficit, since roughly 70% of the

trademark-related documents received by the PTO are still on paper. There is nothing in the notice to suggest this. It is perhaps more plausible that the cost of examining an electronic trademark application represents a cost-savings for the PTO and since the PTO is supposed to operate on a dollar-for-dollar basis, the savings should be passed on to the customer – the trademark owner. We therefore conclude, based on the information provided in the notice, that the proposal is inconsistent with the agency's well-established dollar-for-dollar cost recovery business model.

This unjustified increase in the fees for paper submissions is further complicated by the likelihood that not all of the money raised through the charge will be used to fund PTO operations. If history is an accurate indicator, a significant portion of the revenue raised through the increased fee on paper documents will be diverted during the appropriations process to fund other government agencies or programs. Last year, approximately \$44 million of PTO revenue was diverted. The year before that, the final number was \$116 million. Since the notice fails, in our opinion, to make a persuasive case concerning the budgetary need for the \$50 charge, we can only assume that the money that would be raised through this increase would be vulnerable to diversion during the appropriations process. Trademark owners are unwilling to support any increase in the hidden tax that is already imposed upon them.

In addition to our objections to the merits of the \$50 increase, we respectfully suggest that the PTO lacks the statutory authority to impose the charge, which *de facto* would adjust existing fees, without first receiving authorization from Congress. The statutes cited in the notice, 35 U.S.C. §2 and 15 U.S.C. §41, as amended, do not refer in any way to the director's ability to set fees. Section 41 of 15 U.S.C. establishes the Federal Trade Commission, and 35 U.S.C. §2, which lists the "Powers and Duties" of the PTO, makes no reference whatsoever to the ability of the agency to adjust fees. The general rule of construction indicates that if Congress bothered to enumerate specific powers, they necessarily intended to limit the powers to those enumerated. Put simply, the PTO has not cited in the notice clear and persuasive authority for its proposal.

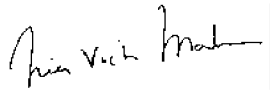
The same can be said of 35 U.S.C. §3 and 35 U.S.C. §41, to which the PTO directed us after we raised initial concerns regarding statutory authority to raise fees. The statute entitled "Patent fees; patent and trademark search systems," 35 U.S.C. §41, does exactly what the title says; it sets patent fees and says that the director can charge for access to automated search systems, but mentions nothing with regard to general rule-making authority concerning trademarks. Section 3 of 35 U.S.C. merely establishes the officers of the PTO, but, as with 35 U.S.C. §41, mentions nothing with regard to the rule-making authority of the director. Nor does this statute address the director's ability to establish fees.

The Lanham Act, however, does provide specific authority for the director to establish fees for the filing and processing of an application for the registration of a trademark and for all other services and materials related to trademarks. Once established, however, the fees can only be adjusted once every year to reflect fluctuations in the Consumer Price Index ("CPI"). See 15 U.S.C. §1113(a). In the past, this proper limitation of authority has required the PTO to seek authorization from Congress to adjust fees without regard to fluctuations in the CPI and to fully cover the costs of trademark operations, *see, e.g.*, P.L. 106-113, and we understand that the PTO

is prepared to make the same request of Congress for fiscal year 2003. If, in fact, the cost of examining documents submitted on paper is above the already established fees and the money is needed to fully cover the costs of trademark operations as it was in late 1999 (although there is nothing in the notice to suggest that this is the case), then a legislative proposal is the proper venue for a discussion. Indeed it is the only venue for any proposed fee adjustment beyond those related to the CPI.

INTA appreciates the opportunity to provide comments on the proposed rule. Trademark owners, who are the PTO's customers, urge that instead of raising the fee for paper filers, the agency look towards a reduction in the basic filing fee for those who file electronically. This provides an incentive for using e-filing and is supported by the information provided in the notice. We look forward to addressing matters relating to e-filing, fees, and reform of the examination system as part of the broader discussion that will be taking place shortly in Congress with respect to the PTO's recently released five-year strategic plan. Questions concerning INTA's position can be directed to Jon Kent, the INTA Washington Representative, at (202) 223-6222.

Sincerely,

A handwritten signature in black ink, appearing to read "Nils Victor Montan", followed by a vertical line.

Nils Victor Montan
President



International Trademark Association

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Telephone: 212-768-9887 Fax: 212-768-7796

APPENDIX 2

Via Electronic Mail

June 6, 2002

Mr. Matthew Lee
U.S. Patent and Trademark Office
Office of Finance
Crystal Park One
Suite 802
Washington, D.C. 20231

Re: Opposition to Trademark Application Fee Increase

Dear Mr. Lee:

For the reasons set forth below, the International Trademark Association (INTA) is opposed to the fee increase for filing a trademark application, per class, as proposed in the May 7, 2002 *Federal Register*. INTA, a 124-year-old not-for-profit organization with over 4,000 members, is the largest organization in the world dedicated solely to the interests of trademark owners. The members of INTA, who routinely apply for and maintain trademark registrations, are customers of the U.S. Patent and Trademark Office (PTO). Under the proposed rule, due to increases in the Consumer Price Index (CPI), the filing fee would be raised from \$325 per class to \$340 per class.

Consistent with our response to the proposed 2001 CPI increase, INTA opposes the 2002 fee increase, because it is almost a certainty that not all of the money raised through the increase will be used to help examine trademark applications. If history is an accurate indicator, a significant portion of the revenue raised through the increase will be diverted during the appropriations process to fund other government agencies or programs. Last year, the final number was approximately \$44 million. The year before that, the final number was \$116 million. These diversions constitute a hidden tax on trademark owners, which the CPI increase proposed at this time would only exacerbate.

Because the PTO's budget is entirely fee based and not dependent on taxpayer dollars, INTA believes strongly that the revenue collected by the PTO should be fully committed to enhancing the agency's performance and staffing needs. If in fact the increased fees were to be used, in their totality, to help enhance technology, improve the quality of examination, and prepare for new initiatives such as the Madrid Protocol, we would reconsider our opposition.

If you have any questions concerning INTA's opposition to the proposed fee increase, please contact INTA Washington Representative Jon Kent at (202) 223-6222.

Sincerely,

Nils Victor Montan
President

Mr. COBLE. Thank you, Ms. Barrett Park.
Mr. Kirk.

**STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR,
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION**

Mr. KIRK. Thank you, Mr. Chairman. I am pleased to present the views of AIPLA on the PTO's proposed fee bill and structural reform. We truly appreciate the efforts of Undersecretary Rogan and his team to craft an imaginative plan to achieve the quality, pendency, and e-filing goals Congress has set. However, I must report that AIPLA strongly opposes the proposed fee bill.

AIPLA would support a reasonable fee increase to enhance quality, reduce pendency, and implement an effective e-filing system, but this fee bill, as was just noted, is designed to raise \$162 million extra for diversion. For this reason, many of the proposed fees are excessive and not reasonably tied to achieving the goals.

For example, notwithstanding the significant projected reduction in application filings for next year, the PTO still proposes to raise the same amount of revenue as proposed by the President when the filings were projected to be some 24 percent greater. These higher fees will have significant adverse impact on patent applicants. And it must be kept in mind that patent applicants will have the additional expense of paying a private contractor to conduct the search. These higher fees and other additional expenses will preclude some independent inventors and startup companies from using the patent system, and they will curtail its use by major American companies.

We do believe, however, that certain proposed fees can reasonably be tailored to foster best practices as in the fee bill, establishing fees to ensure that applicants pay the actual cost of the effort required to examine applications could have the salutatory effect of discouraging applicants from needlessly filing large numbers of claims. Obviously, however, the fees need to be designed to encourage best practices and not be punitive or penalize legitimate practices.

The fee bill would also impose a surcharge of more than \$10,000 on applications merely because they contain claims that are patentably indistinct from claims in other applications, with much higher surcharges for additional overlapping cases.

Both this proposed surcharge and the proposed excess claim fee schedule would substantially increase applicants' costs as they seek to navigate the pitfalls created by the Supreme Court's *Festo* decision in protecting their inventions.

The adoption of a deferred examination system would be a very significant change in the United States. Contrasted with the benefits the PTO projects for itself and patent applicants are the costs for the public. Deferring examination extends the period of uncertainty during which the public will not know whether a patent will issue or what its scope will be.

Weighing these competing interests, however, AIPLA has determined that it would not object to a limited period of deferral that would give applicants the opportunity to obtain a search. To minimize the uncertainty, however, this deferral should not be greater than 14 months. Thus, AIPLA opposes the 18-month period of de-

ferral in the bill, in the transitional section as well as the provision giving the Director discretion to modify that period.

For these reasons, we urge the Subcommittee to reject the proposed fee bill.

Regarding structural reform, AIPLA endorses the effort to promote work-sharing among patent offices. Making greater use of search reports under the Patent Cooperation Treaty and by other offices is long overdue.

We also support the hiring, promotion, and training initiatives outlined by the PTO as well as the acceleration of the e-filing initiatives. We do not believe, however, that applicants should be permitted to procure searches directly from private search contractors and submit them to the PTO. The ultimate responsibility in each individual case must rest with the PTO examiner to ensure that the search is complete in the first instance and to conduct supplemental searches as appropriate.

We also believe that pendency should be measured from the time a patent application is filed, whether or not it is also measured from the time that an applicant requests application. The period from filing to grant is the period of uncertainty that is of most concern to the public.

For pending applications without a first action on the merits, the PTO would impose a limited duty of inquiry as to documents within an applicant's possession, along with a mandatory information disclosure statement that must contain an explanation of the relevancy of cited information to the claims with those citations exceed a certain number. This will impose a heavy burden on thousands of applicants who have previously filed their applications and increase their risk to charges of inequitable conduct.

Summarizing, Mr. Chairman, AIPLA strongly opposes and urges rejection of the proposed fee bill. We do believe, however, that Undersecretary Rogan and his team have laid a foundation on which we can begin to make real improvements to the PTO.

We pledge our continuing support for the goals the Undersecretary is seeking and our willingness to work with the PTO and the Subcommittee to achieve those goals. Thank you.

[The prepared statement of Mr. Kirk follows:]

PREPARED STATEMENT OF MICHAEL K. KIRK

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform."

The AIPLA is a national bar association of more than 14,000 members engaged in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

BACKGROUND

At the Oversight Hearing which the Subcommittee held on April 11, 2002 on "The U. S. Patent and Trademark Office: Operations and Fiscal Year 2003 Budget," AIPLA testified that achieving a strong and effective Patent and Trademark Office would require focusing on three critical objectives: quality, timeliness and improved electronic filing and processing capabilities. These objectives were stated in H.R.

2047, the “Patent and Trademark Office Authorization Act of 2002.” This legislation calls for the Director to develop a five-year strategic plan that would—

- “ (1) enhance patent and trademark quality;
- (2) reduce patent and trademark pendency; and
- (3) develop and implement an effective electronic system for use by the Patent and Trademark Office and the public for all aspects of the patent and trademark processes. . . .”

Under Secretary Rogan announced in March that he was preparing to begin a top-to-bottom review of all non-examination and administrative support operations, and expected to see a compelling justification for every non-examination operation within the agency. Shortly thereafter, the PTO began working intensively to develop a five-year strategic plan called for by Congress. The “The 21st Century Strategic Plan” (hereafter “Strategic Plan”) published on July 5th represents the current status of that effort.

AIPLA established a three-pronged Task Force under the leadership of AIPLA First Vice-President Rick Nydegger—focusing on Patents, Trademarks, and Patent e-Commerce—to work with the Office to critique and offer suggestions on various proposals that the PTO shared with us and on which our input was solicited. The PTO accepted some of the suggestions of the Task Force for modifying its proposals and rejected others as it developed its Strategic Plan. More recently, the PTO proposed a sweeping adjustment of the patent and trademark fee structure contained in the fee bill which we are asked to address today. The AIPLA Board of Directors then debated and discussed the PTO’s proposed fee legislation and Strategic Plan for more than six hours of meetings and arrived at the views which I express today. We will continue to review the newer proposals which we have only recently received and to provide our comments to both this Subcommittee and the PTO.

PTO’S PROPOSED FEE BILL

At the outset, I would like to make it very clear that the *AIPLA strongly opposes the PTO’s proposed fee bill*. In our testimony three months ago on the President’s Budget, we reiterated our strong opposition to any diversion of patent and trademark fees. We added that if there is a need for additional resources for some urgent program or service unrelated to the patent and trademark systems, the President and the Congress should explain that need and, if the existing tax revenues are insufficient, propose a tax increase *on all citizens* who will receive the benefits of such program or service. It should not be hidden away as a stealth tax increase only on America’s inventive community.

AIPLA continues to oppose diversion and, for that reason and others, we strongly oppose the PTO’s fee bill. The fees are fixed in the fee bill at levels to recover the arbitrary amount of revenue targeted in the President’s FY 2003 Budget, \$1.527 billion, released in February. This is the same amount that the President had proposed to raise through the imposition of 19% and 10% surcharges on patent and trademark fees, respectively, in order to raise an additional \$162 million in revenue to be available for siphoning-off to other, unrelated government programs. AIPLA opposed the President’s Budget for the PTO principally because of its proposed fee diversion; AIPLA opposes the fee bill proposed by the PTO because it contemplates the same diversion.

At the Oversight Hearing on the PTO’s Fiscal Year 2003 Budget in April, AIPLA stated that “We would support a *reasonable statutory fee increase* to implement a five year plan that would achieve the goals Congress and we seek.” Unfortunately, the fees contained in the bill are excessive because they are arbitrarily set to bring in a total of \$1.527 billion.

Moreover, the fees are not reasonably tied to achieving the objectives of a thoughtful business plan. There are several aspects of the fee bill which fail in this respect. For example, under the President’s FY 2003 Budget, the PTO proposed to collect \$1.527 billion in revenue from user fees (including the surcharges noted above) which were to be paid for and used to process 404,600 patent applications and 330,000 trademark applications. Due in part to the current economic downturn, the PTO has downwardly revised its projections for patent and trademark application filings, and now estimates that only 338,000 patent applications and 254,000 trademark applications will be filed in FY 2003. Notwithstanding this significant projected reduction in filings, the PTO still proposes a fee bill designed to raise the same \$1.527 billion in fee revenues as proposed in the President’s FY 2003 budget when the combined application filings were projected to be some 24% greater. The fees have simply been set at levels designed to raise the targeted revenue amount

of \$1.527 billion dollars, rather than being tied to real costs of doing business under the Strategic Plan.

The levels of fees necessary to raise the President's targeted amount of revenue are in fact so high that we believe that the PTO underestimates the adverse impact these fees will have on patent applicants. And it must be kept in mind that U.S. inventors and companies will, under the Strategic Plan proposed by the PTO, have the additional expenses of paying to obtain a search and to request examination based on the search results. These fees and other associated costs will preclude some independent inventors and start-up companies from using the patent system and they will clearly have a dampening effect on the use of the system by major American companies.

We also believe that the fee schedule proposed by the PTO could possibly generate more than \$1.527 billion in revenue. In this regard, we understand that, under the President's Budget, the PTO is expected to recover \$411,300,000 in maintenance fees in FY 2003. Under the revised fee schedule, where maintenance fees are increased by 48%, the PTO is estimating that in FY 2003 it will receive only \$449,632,392 in patent maintenance fees—a mere 9% increase. Similarly, the new patent examination fee of \$1250 for utility patent applications is expected to raise \$153,500,000 in FY 2003, but we understand from the PTO that this amount represents only one-half of the amount that this new fee will generate in the following years. This is because the Office expects that only 50% of the applicants who file in FY 2003 under the proposed 18-month deferred examination system will request examination in FY 2003. This means that the overall fee revenue for the PTO will automatically increase by more than 10% in FY 2004 from just this one fee, without taking workload or inflation into account. While we cannot definitively say that this will be the case with other fees as we have not yet had sufficient opportunity to study the proposed fees and PTO workload assumptions (which have changed during the process), these points demonstrate some of the reasons why we believe the proposed fee bill must be rejected by this Subcommittee.

We do not, however, want to leave the impression that there are not some useful concepts in the fee bill. We believe that certain types of fees as contemplated in the fee bill can be reasonably tailored to foster best practices. Establishing fees to ensure that applicants will pay the actual costs of the effort required on the part of the PTO to examine applications could have the salutary effect of discouraging applicants from needlessly filing inordinately large numbers of claims and excessively long patent specifications. It would also be fairer to those applicants whose applications are shorter and do not require as much examination effort. We do not believe, however, that steeply escalating fees for claims should begin with the 4th independent claim or the 21st total claim in an application. Beginning moderately increased fees with the 7th independent claim and the 41st total claim would avoid penalizing the more than 95% of applicants who currently fall below these thresholds. Similarly, we believe that the charge for excess pages in patent specifications should not begin at the 51st page if drawings are included—the 76th page would be more appropriate—and that sequence listings, source code listings, and other similar types of lengthy submissions of information, which should be required to be filed on CD-ROMs, should not be included in such calculations.

The imposition of an appropriate surcharge on the filing of continuation applications and continuation-in-part applications beyond a reasonable limit would discourage the filing of such applications and avoid the prolonged public uncertainty as to the scope of any patent that may ultimately be granted. We do not, however, believe that such a surcharge should be imposed on divisional applications necessitated by restriction requirements ordered by examiners. In addition, we do not believe that the Director should have the discretion to begin the imposition of such fees prior to the third continuation or continuation-in-part application.

Thus, fees designed to encourage best practices should be set to begin at limits and levels that are not punitive and do not penalize legitimate practices and events. They should be fixed at limits and levels so that those applicants who file applications with inordinately large numbers of claims and long specifications will pay for the added effort they impose on the PTO.

The fee bill would also impose surcharges on applications merely because they contain claims that are patentably indistinct from claims in other applications. The TRANSITIONAL PROVISIONS in Section 4(3)(A) would impose a fee of over \$10,000 for a first occurrence of such overlap, with much higher fees for additional cases of such overlap. Revised Section 41(a)(3)(B) in Section 2 of the fee bill would give the Director discretion to adjust this amount. We are informed that this surcharge is "particularly necessary to mitigate any tactical applicant use of multiple applications to circumvent the proposed increases in fees for additional claims." We believe that such a surcharge would in fact adversely impact applicants who are not

seeking to game the system, and that few applicants would engage in such tactics in any event. It is a dangerous solution in search of a problem and should be rejected.

One of the most fundamental issues that is addressed both in the fee bill and in the proposals for procedural and operational changes relates to deferred examination. The notion of deferred examination is an integral feature of the PTO's proposed Four-Tracks system. The fee bill addresses deferred examination in two places. First, in the TRANSITIONAL PROVISIONS in Section 4(3)(A), the fee bill sets an initial period of 18 months from the earliest effective U.S. filing date for requesting examination and paying the examination fee. Second, in revised section 41(a)(4) contained in Section 2 of the fee bill, the Director would be given discretion to modify the period for requesting examination and paying the examination fee.

The adoption of a deferred examination system by the United States would be a significant departure from the existing U.S. system where all applications filed are automatically examined. The PTO is proposing 18-month deferred examination to "allocate USPTO resources more rationally and to serve the actual needs of the customer better." The PTO expects that the imposition of the additional fee for examination, after the opportunity to evaluate the search results, will induce a reduction in the number of applicants opting for substantive examination. It reasons that this will both free up examiner resources and allow applicants to avoid paying the examination fee for applications they are no longer interested in pursuing. The PTO estimates a drop-out rate of 10% with the proposed 18-month deferral period.

With the benefits projected for the PTO and patent applicants, however, come certain costs for the public and the competitors of applicants. Delay in beginning the examination process extends the period of uncertainty during which the public will not know whether a patent will issue or what its scope will be. Thus, a deferred examination system should only be adopted if it is clear that the benefits outweigh the drawbacks. The balance that AIPLA strikes between these two competing interests is driven by the constraints which exist in the world in which we find ourselves.

Having considered the competing interests and the structure proposed by the PTO in its Four-Tracks system, AIPLA has determined that it would not object to a period of deferral of 14 months or less. We believe that this strikes an appropriate balance; it would allow both domestic and foreign applicants the opportunity to obtain a search from an examiner, Certified Search Service (or CSS), or a foreign patent office, and would minimize the delays inherent in this procedure. For this reason, however, AIPLA opposes the 18-month period of deferral in the TRANSITIONAL PROVISIONS of the fee bill and opposes the provision in revised section 41(a)(4) giving the Director discretion to modify the period for requesting examination and paying the examination fee. Any period of deferral should be fixed by statute.

Finally, we would note that our position on deferred examination is within the context of the proposed Four-Tracks system. Were AIPLA given a blank sheet of paper, we would not have opted for the plan before us today. Thus, whether AIPLA would reach the same conclusion regarding deferred examination in a different context can only be determined after we have had the opportunity to review any such proposal.

For the reasons stated above, we urge the Subcommittee to reject the PTO's proposed fee bill. We have heard the dire prediction that if this fee bill is rejected, the PTO will not be given sufficient funding to carry out its Strategic Plan. We find that prospect considerably less frightening than a fee bill that prices the inventing community out of the patent system.

PROPOSALS FOR PROCEDURAL AND OPERATIONAL CHANGES

AIPLA approaches the evaluation of the PTO's operational changes in the real-world context in which it has been proposed. The United States patent examination system has been developed over a two-hundred-year period, with constant refinements and improvements. And although the proposal before us differs significantly from this time-tested system, we recognize that the PTO has to work in a system of constraints imposed by the Executive Branch and the Congress. While the PTO could continue to pursue a more traditional approach of asking for increased examiner resources to improve quality and reduce pendency, neither the Executive Branch nor the Congress are going to listen. Congress has made it very clear that it demands a new approach, one that seeks other ways to tackle these problems. So we could pursue the old way and watch the system continue to deteriorate, or we can try to work with the PTO to develop alternative ways to fix the problems, ways that might gather the needed support. We can either curse the darkness or try to light a candle. AIPLA has chosen to try to light a candle.

AIPLA appreciates the comprehensive effort the PTO is making to address the quality, pendency, and electronic processing issues it faces. In this regard, the Strategic Plan evidences an effort to develop a strategy for enlisting the capabilities of patent examining offices globally to join in the common struggle all offices face under the increasing crush of patent applications worldwide. While we have concerns about several of the specific details of the Strategic Plan, we would not wish our reservations to obscure the desirable innovations proposed.

The initiatives to create a competitive compensation package for Supervisory Patent Examiners to attract and retain the best employees in these jobs, develop suitability tests for potential examiner candidates, establish “training art units” for new examiners in high volume hiring areas, and develop a testing process to certify examiners for promotions are all right-on to enhance patent quality. Expanding the “second set of eyes” concept successfully used with business method patent applications to other technology areas and to the expedited examination options in the trademark area would be welcome. Enhancing the reviewable record by increasing the amount of information included in patent application files regarding applicant/examiner interviews will assist the public to better appreciate the exact metes and bounds of any resulting patent. AIPLA supports these steps and a number of other actions that the PTO has proposed in the papers associated with the Strategic Plan. We turn now to the central features of the restructuring proposed by the PTO.

Four-Tracks System

Central to the PTO’s plans for restructuring its patent examination process in order to improve the quality and reduce the pendency of patents is its “Four-Tracks Patent Examination Process” which would base examination on patent searches conducted by private firms and other patent offices. By using searches from CSSs, and other patent offices, the PTO hopes to off-load the search work from examiners, allowing them to concentrate on the core government function of examination. And as noted above, the proposed adoption of an 18-month deferred examination system, is an integral feature of the Four-Tracks system.

There is one point about which AIPLA would like to be very clear. Page three of the Strategic Plan states that, provided the PTO receives the funding and statutory changes necessary to implement the Strategic Plan, it will “Achieve and maintain 18 months patent pendency by 2008, compared to over 25 months in the 2003 Business Plan.” However, footnote 2 states that

[P]endency [under the Strategic Plan] is redefined as the examination duration period (i.e., from the time the applicant requests examination to the ultimate disposition of the patent application). This measure is the same measure that is used internationally in systems that permit deferred examination and is the proper metric of USPTO examination performance. When the average period of deferral is added, the average pendency from filing of the application to issue or abandonment would be 27 months.

Measuring pendency from the time applicants request examination would change the traditional method for measuring patent application pendency. It would make it appear that the PTO was achieving success in reducing pendency, when the pendency could in fact be greater than today, e.g., note the need to add 9 months to the 18-month 2008 goal if pendency were measured in the traditional manner. While we do not object to the PTO measuring pendency from the date examination is requested to the date of issue/abandonment, measuring pendency from the date an application is filed in the United States to the date of issue/abandonment is the critically important measure of the period of uncertainty that the public and competitors endure.

AIPLA welcomes the PTO’s proposal to make greater use of International Style Search Reports (ISSRs) prepared by International Search Authorities under the Patent Cooperation Treaty and by other patent offices under their national procedures by giving such searches “near full faith and credit.” We understand that such searches will be used by the PTO only following its determination that a given office can produce quality searches, a necessary prerequisite to achieving the quality levels we seek. This is clearly a step in a direction that will lead to greater cooperation and work-sharing among the world’s major patent offices. We are not prepared, however, for the PTO to give “near full faith and credit” to the *examination* conducted by another patent office. Not only do the laws, practices, and procedures of other patent offices differ from those of the PTO, but even the translation of the claims can distort the exact scope of what was allowed. AIPLA can only agree to giving “near full-faith-and-credit” to the *search* done by another patent examining office that has been approved by the PTO.

AIPLA can accept the proposal of the Office to develop qualified CSSs to prepare ISSRs using criteria similar to those used to designate an International Searching Authority under the Patent Cooperation Treaty. Our position is based on the assurances that the PTO has given that it will particularly focus on the competency of the CSS to perform high-quality searches and that each CSS will be subject to regular re-certifications.

We do not believe, however, that applicants should be required or even permitted to procure searches directly from CSSs and submit them to the PTO when they request examination of their applications. We are concerned that the presumption of validity of U.S. patents could be adversely affected if the PTO simply hands off the responsibility for obtaining the search to applicants and CSSs. The PTO must ultimately be responsible for ensuring that the searches it relies upon are of the highest quality, whether done by its examiners, CSSs, or qualified foreign patent offices. Particularly with a CSS, PTO examiners should always assess whether the search was complete and, if not, demand that the CSS re-search the application and “get it right.” The PTO will select and certify the CSSs and therefore it must exercise the same control over them to provide quality search results as it does over its own examiners. Finally, the ultimate responsibility in each individual case must rest with the PTO examiner, to ensure that the search is complete in the first instance and to conduct supplemental searches as appropriate as the claims in the application are modified as the application advances through the examination process.

Mandatory Information Disclosure Statements (IDS)

For those applicants who have not received a first action on the merits from the PTO by the time the PTO’s Strategic Plan would go into effect, the PTO proposes to impose what it describes as a “limited duty of inquiry” on such applicants (as to documents within their possession) and a mandatory IDS. The PTO’s stated focus of the information to be submitted will be non-patent literature that is related to the claimed invention, including information used to draft the application, information used in the inventive process and information concerning improvements and state-of-the-art. Applicants are to submit the required information, with an explanation of relevancy for citations of patents over twenty and of non-patent literature over twenty. This mandatory IDS procedure is intended by the PTO as a way to transition those applications already on file into a separate search and examination procedure similar to those contemplated under the PTO’s Four-Tracks system.

AIPLA opposes the imposition of this kind of obligation as well as the proposed requirement for applicants to explain the relevancy of prior art to the claims for any references in excess of twenty. The PTO proposal goes far beyond the current duty of candor under Rule 56(c). This proposal would unfairly impose an incredible burden on tens of thousands of applicants who have filed patent applications in the last few years, paid the required fees, and expect examination. In terms of time and costs, this burden will fall particularly hard on the largest filers, corporations with hundreds of unexamined applications in the pipeline.

We also strongly disagree with the PTO’s statement that the public’s concern with the issue of inequitable conduct can be addressed simply by amending Rule 56. Not only would a rule not adequately protect applicants from challenges under the judicially-created doctrine of inequitable conduct, but the specific rule proposal once again, as in the case of the proposed CSS procedure, seeks to shift the responsibility for conducting the examination from the PTO to the applicant.

Post-Grant Review

One final comment about the PTO’s plans to enhance patent quality is in order. Throughout the proposals by the PTO for restructuring the patent examination process, a consistent theme is that a more vigorous post-grant review procedure will be established as a safety net. While AIPLA has long advocated and supported a robust post-grant opposition system, we do not agree with the emphasis of the PTO on using such a procedure as an integral part of its quality enhancement plans. In our view, the PTO should “get it right the first time.”

In conversations which the AIPLA Patent Task Force had with the PTO, it was reported that the emphasis on post-grant review was in response to mandates it faces to measure the success it makes in improving quality. We cannot see any basis from either the extent of use or the outcome of post-grant proceedings for drawing conclusions of this type as to the quality of the examination process. For example, there has been a grand total of four *inter partes* reexamination proceedings instituted since that procedure was created in 1999. The only conclusion we draw from this fact is the conclusion almost everyone already knew: that procedure is fatally flawed. It informs no one about the quality of the patents being issued by the PTO.

Finally, as noted above, AIPLA supports a vigorous post-grant review procedure as we have stated previously in testimony before this Subcommittee. While there are several features in the post-grant procedure proposed by the PTO with which we agree, we also have a number of suggestions for improvements which we are prepared to offer at an appropriate time.

Trademarks

The PTO is proposing that trademark applicants be allowed to choose between four filing options that will affect fees, method of filing, and speed of process. The first of these options would have the trademark applicant provide a likelihood of confusion search from a USPTO Certified Search Service. AIPLA does not believe that this option will enhance quality or reduce pendency or costs. The searches that trademark examining attorneys perform for likelihood of confusion issues are straightforward computer searches of PTO records which can be done with relative ease. The issues in the trademark examining operation are very different from those in the patent examining operation. Moreover, there is concern that search quality, the presumption of validity, and the value of trademark registrations may suffer. Given the absence of any demonstrated need for this proposal, such as a shortage of examiners or growing pendency (as exists on the patent side), AIPLA opposes this option.

We would like to express our continued support for the Trademark e-Government plan to implement an electronic file management system and begin e-Government operations on October 1, 2003. Full electronic processing of trademark applications will improve quality and restrain, if not reduce, costs and the need for increasing numbers of employees or contractors to handle increases in filings as the reliance on paper disappears from internal processes.

Patent e-Commerce

AIPLA fully supports the PTO's ongoing effort to accelerate its electronic filing and processing initiatives in the patent operations. The implementation of a truly effective, user-friendly system that would permit applicants not only to file, but also to prosecute, their applications electronically will save resources in terms of staff, space, and the reduction of clerical errors. We have continuing concerns, however, that those initiatives will not be sufficiently user-friendly to encourage widespread electronic filing of patent applications. Notwithstanding all of the agreements the PTO has entered into with contractors and other IP organizations, we still have not seen evidence that applicants will be able to easily and quickly file their patent applications. Notwithstanding any agreements or contracts that constrain the manner in which the PTO processes information internally or shares files with other patent offices, we urge the PTO to adopt a system that will permit applicants to electronically file documents produced using image files (such as .pdf or .tif) or documents produced using Word or WordPerfect and to receive office actions and all other PTO communications in such formats.

CONCLUSION

While AIPLA strongly opposes and urges the rejection of the proposed fee bill for the reasons stated above, we recognize that the PTO must be adequately funded if it is to achieve the quality, pendency, and e-commerce goals it has announced and which AIPLA fully supports. The Task Force established by AIPLA has worked very hard to assist the PTO in its restructuring efforts. Notwithstanding our views on the fee bill, as well as on a number of the structural changes, AIPLA is committed to continuing the efforts begun by the Task Force. The road to strong and healthy patent and trademark systems is going to be long and arduous. There will be no magic wands. We believe that a foundation is being laid on which we can make real and lasting improvements to the PTO. AIPLA pledges its continuing support for the goals Under Secretary Rogan is seeking to accomplish and its willingness to work with the PTO and this Subcommittee to achieve those goals.

Mr. COBLE. Thank you, Mr. Kirk.
Mr. Baker.

STATEMENT CHARLES P. BAKER, CHAIR, INTELLECTUAL PROPERTY LAW SECTION, AMERICAN BAR ASSOCIATION

Mr. BAKER. Mr. Chair and other Members of this Committee, I am personally honored to be here. You are performing one of the highest forms of public service to our country; you are devoting

your time to try and resolve difficult and important issues that few citizens appreciate. But they benefit, unwittingly, from your dedicated efforts on behalf of the IP system and our Nation, a system which encourages investment in new jobs—not just new jobs, in new industries.

I'm also honored to be here to give the views of the ABA and the 21,000 members of its IP Law Section to help you decide what to do.

Also, on a personal level, AP Carlton, who will be the ABA president in 3 weeks, sends his personal greetings to this Committee.

Basically, we commend the effort of the office and Director Rogan, another dedicated public servant. It contains some good concepts, but it also contains some bad ones, such that we cannot support the proposal.

While I know you share our views and I am preaching to the choir, and I will not spend much time on it, we are disappointed that this fee proposal comes to us without even a promise that the Administration will try to decrease the diversion of patent and trademark applicant fees. This injurious practice in the 10 years since it began has siphoned off \$800 million from research and development budgets of the users of the IP system.

Now Congress has the power to tax just about anything it wants. But taxing R&D, which creates new jobs, is a bad policy choice.

The ABA House of Delegates has adopted a resolution opposing that diversion.

The rest of my remarks are on behalf of the ABA IP Law Section only.

The problems the office faces are not all of its own making, and they are not all bad moves. The great increase in filings means this country is investing more in research and development. Former Commissioner Mossinghoff reports that the pharmaceutical industry increased its R&D expenditures more than tenfold in 20 years from 1981 to 2001, from \$2.3 billion to about \$30 billion. We should all be heartened by what this means for our health.

But that spending has added to the office's headaches. In the same period, the pharmaceutical industry increased its patent filings by three times. Such problems are the best kind to have, but we must deal with them through increasing the capacity of the office.

Now, one major success of the office, a success that shows it can solve problems, is on the trademark side. There the office can be justly proud of its electronic-filing system efforts.

Turning to fees, we agree with the concepts in this proposal that increased fees that correlate with added work are appropriate. On the other hand, fees that escalate in a punitive way should be rejected. Patent applicants already have incentives not to file excessive numbers of claims or excessive related applications. Applicants do not spend money on their lawyers to do those things unless they believe it is necessary or desirable to protect an invention.

For example, an application may have several embodiments, and the applicant may deem it wise to have a claim for each embodiment. Rather than devise language for a single claim that covers all embodiments and which may create other problems like undue breadth or vagueness.

If the extra work causes the office extra work, paying for that work is reasonable. But to have punitive fees to discourage a reasoned practice would be unfair.

One major area of harm in this proposal is moving prior art searches to private companies. If someone else has to do the search, the examiner still has to spend additional time reading and understanding the art. So the savings will not be as great, will not really be great. We have seen estimates that these savings could be as low as only 5 percent.

But more important, prior art searches are the starting point for validity. If they are incomplete, the rest of the examination process goes for naught.

Many of us were examiners. We know that examiners can perform good searches. Each of the 3,500 examiners has a narrow area of art of her own specialty. We also know that the examination is going on in the head of the examiner as she performs her search, and it guides the search. The end result is a better search and a better examination.

In other words, if the examiner does not do the search, we will end up with a weakened presumption of patent validity, which is a bad idea.

Selecting searches from selected foreign patent offices is somewhat different. But because of differences in laws, which are mentioned in my written statement, the search may be incomplete. It may be used as a starting point, but it should always be supplemented before a U.S. patent is issued.

Deferred examination, for the reasons in my statement, is another bad idea, in our opinion.

To the extent punitive fee revenues and high filing fees are necessary to pay for things like user-friendly reliable electronic filing, we urge that the revenue be raised by increasing maintenance fees. The present plan would increase filing fees by a factor of two or more, but maintenance fees by 50 percent. For reasons set forth in my statement, we would rather see more water carried by maintenance fees and less carried by filing fees.

Finally, let me mention two items not related to fees but referred to in the plan which we favor: post-grant oppositions, if properly implemented, and accelerated examinations for an added fee.

I would be glad to answer questions of yours or your staff today or at any time. And we would welcome the opportunity to work with you, the office, and others in the user community to develop a fee structure and patent office reforms on an entirely sound basis.

We are glad to do what we can to help. Thank you.

[The prepared statement of Mr. Baker follows:]

PREPARED STATEMENT OF CHARLES P. BAKER

INTRODUCTION

Thank you for the opportunity to testify on behalf of the American Bar Association and that Association's Section of Intellectual Property Law. I am Charles P. Baker, Chair of that Section. The views that I express opposing the diversion of United States Patent and Trademark Office user fee revenue to fund programs unrelated to the functions of that Office represent views of the Association. The Association's House of Delegates adopted them as ABA Policy. Views expressed on other issues, including on individual components of the Administration's proposal for the

restructuring Office user fees, have not been approved by the House of Delegates or Board of Governors of the Association. Those views are those of the Section of Intellectual Property Law (IP Law Section) alone.

As requested by the Subcommittee, our comments today will focus on the new fee structure that has been developed by the Office and proposed by the Administration. Implicit in or contemplated by the proposed restructured fee schedule are numerous fundamental changes in the operations and services of the Office, in requirements imposed on the Office's customers, and in utilization of Office resources, most particularly its human resources. To the extent these proposals are tied to the fee restructuring, we will also comment on them.

Congress faces critical decisions regarding the future funding of the Office, and indeed, the future of the Office itself and the U.S. system of intellectual property. A brief review of relevant recent history may be useful in understanding the proposed fee restructuring and its accompanying components.

BACKGROUND OF THE NEW FEE PROPOSAL

The Fiscal Year 2002 Funding Proposal and Business Plan

About 18 months ago, the President sent his budget proposal for funding the Office in Fiscal Year 2002 to Congress. Most noteworthy in that submission, it projected that patent pendency would rise to more than 38 months by Fiscal Year 2006. What made this prediction still more disturbing, the Administration based it upon an assumption that user fee diversion would end after 2002, hardly a likely prospect. At the time these projections were made, many who depend upon the services of the Office believed that quality, equally if not more important than pendency, also showed numerous signs of deterioration.

Congress made clear its serious concern about the inadequacy of the Administration's response to the mounting problems. In its report on the bill containing the FY 2002 PTO appropriation, the Senate Appropriations Committee described its dissatisfaction as follows:

"The ability of the administration to formulate an adequate budget for the PTO is complicated by two factors. First, the agency historically has formulated an incremental budget based on the previous year's budget, and does not provide the Committee with a thorough business plan that demonstrates how resources will be used and what results will obtain. Second, PTO management has not been sufficiently innovative. Although patent filings have increased dramatically over the past decade, PTO management chose to remain wedded to an archaic patent process and attempted to hire its way out of its workload problems."

The counterpart House Appropriations Committee report sounded similar criticism, and also served notice on those of us in the PTO user community that the appropriators are not particularly impressed by our argument that all user fees should be made available to the PTO immediately upon collection, particularly when they saw no evidence that the existing fee structure is based upon the real funding needs of the Office. The House report stated:

"The PTO and the patent user community have continually criticized the Congress and the Administration for not allowing full access to their fees in the year they are received, yet PTO has been unsuccessful in proving that increased funding will decrease the amount of time it takes an applicant to receive a patent. PTO bases its budget submission on anticipated fee income, which is derived from an estimation of its anticipated workload. However, there is no indication that the existing level of fees was developed based on any direct relationship to the actual costs of doing business."

To address the deficiencies they found in the Office's budgetary planning and execution, both Senate and House appropriators directed the Office and Secretary of Commerce to submit long-range budget plans. The Senate demanded a 5-year strategic plan with three "core objectives," expressed as "(1) prepare the agency to handle the workload associated with the 21st century economy, (2) improve patent quality, and (3) reduce patent and trademark pendency." The report also directed the PTO to accelerate its implementation of electronic processing of patent applications, with a completion date of 2004, two years earlier than PTO projections.

Similar planning and reporting requirements are contained in H.R. 2047, the authorization bill authored by Chairman Coble and Ranking Member Berman, which the House passed last November, and in a counterpart Senate bill (S. 1754), which passed the Senate on June 26.

The FY 2003 Funding Proposal

Despite this unified call for budget reform from the four key congressional entities with responsibility for authorizing and funding the Office, the Administration this February submitted a FY 2003 funding proposal which bore a striking resemblance to the FY 02 proposal that had drawn congressional criticism as lacking in innovation and based on little strategic planning other than for the agency to “hire its way out of its workload problems.” The PTO Business Plan that accompanied the budget proposal called for hiring 950 patent examiners in FY 2003. In order to finance this and at the same time continue user fee diversion to the extent of \$162 million, a one-year surcharge of 19.3% on patent fees and 10.3% on trademark fees was proposed. The proposal also projected hiring 950 patent examiners in each of the succeeding four years.

In testimony before this Subcommittee on April 11, Director Rogan noted that the five-year Business Plan in the President’s budget was prepared before he took office in December. While calling it “an important first step toward a long-range strategy to refocusing the agency’s priorities on improving quality and timeliness,” he also characterized it as “a traditional response to attack increasing pendency . . . and stem the tide of rising pendency.” Perhaps signaling perception that the original budget proposal and its Business Plan lacked sufficient support in the user community and in the Congress to gain approval, Director Rogan expressed a view that there is a need to go beyond the measures proposed to date. Noting that he had begun a “thorough top-to-bottom review” of the PTO to identify non-essential functions and to shift resources to mission critical tasks, Director Rogan pledged to examine all options, “including the restructuring of our fee system and workforce.”

THE CURRENT PROPOSAL

Overview

The proposal that is being considered today bears witness that Director Rogan has honored the commitment that he made before this Subcommittee in April. He, the Office, and the Administration are to be commended for the very serious dedication to self-analysis and reform that is embodied in or anticipated by the proposed new fee structure. This proposal and others that are said to follow are specifically designed to address congressional mandates to produce long-term strategic planning that deals with deficiencies in pendency and quality and expedites conversion to an end-to-end electronic environment. The objectives of improving patent and trademark processing and examination are worthy ones, and the proposals advanced to these ends certainly represent a departure from the “business as usual” approach that has hampered previous PTO planning and reform efforts. We also believe that certain concepts reflected in the bill can help form the framework for an effective overhaul of the PTO user fee system. For example, the IP Law Section supports setting fees at levels that reflect actual costs to the Office in providing the services involved, a concept that is reflected in some, but not all, of the revised fees proposed. We also approve of other initiatives the Office is contemplating. For example, we believe that the proposals for electronic processing, if properly implemented, will decrease processing time. We also support the proposals for certifying and recertifying all examiners to assure the qualifications of all examiners, who are the heart of the U.S. patent system and must be as qualified as possible.

While we applaud the commitment and effort that has gone into this proposal and we endorse some elements of it, we cannot endorse the final product as a whole. It suffers from a number of flaws, both in conceptualization and in individual components, which we address below, along with the features of the proposal that we do support.

The Fee Proposal Works Backwards, Rather Than Forwards

The proposed wholesale restructuring of patent and trademark user fees is represented as the product of a “top-to-bottom” review of Office service needs and resource allocation. It appears, however, to have begun with an end result in mind and worked backward to achieve that objective. That end result is to produce the same level of revenue as called for in the President’s original budget submission for FY 2003, including some \$207 million to be raised by surcharges of 19.3% on patent fees and 10.3% on trademark fees. The imposition of such a limitation undermines the integrity of the process and the validity of the representation that individual fees proposed are based on improving the services of the Office. Increasing fees for punitive purposes, which we oppose in a discussion that follows, is one possible result of such a flawed approach to fee setting.

Fee Diversion, Which the ABA Opposes, Has Not Been Addressed

The American Bar Association and its IP Law Section cannot support the bill because neither it nor accompanying statements by the Administration suggest any end to the diversion for other purposes of fees paid by users for patent and trademark services. Indeed, the proposal takes a further step in the wrong direction. By building a margin for diversion into a permanent restructuring of fees, Congress would be codifying and institutionalizing user fee diversion. From the time this injurious practice began a decade ago up to the start of FY 2003, it will have removed \$817,000,000 from the research and development budgets of those who use our patent system. This diversion is a tax which decreases investment in research and development in new technologies, and in turn diminishes the creation of new jobs.

The IPL Section Views the PTO's Trademark Initiatives Favorably, but Prefers Incentives in the Form of Discounts over Penalties in the Form of Surcharges

Turning to specific features of the current proposal, the IP Law Section believes the Office has done a very good job in creating an electronic filing system for trademark applications and post-issuance trademark filings, and generally supports the Office's new initiatives to continue to expand and encourage use of that system. While the system is still capable of being improved and made even more user-friendly, it is a success story of bringing Office operations into the modern electronic age, of which the Office can be justly proud. The Section also supports incentives to encourage members of the public to use the electronic filing option, as it reduces operating costs, reduces the potential for typographical errors through the transcription of paper documents into electronic formats at the PTO, and promotes overall efficiency.

The Section, however, opposes the fee increase included in the proposed amendment of Trademark Rule of Practice, published at 67 FR 35081 on May 17, 2002, to impose a surcharge of \$50 per International Class as a processing fee for each document submitted on paper when an appropriate electronic document is available for use. The IP Law Section opposes that surcharge and believes the more appropriate and customer-focused way to encourage electronic filings is to provide a positive incentive—for example, a \$50 per class discount when the document is filed electronically—rather than a penalty in the form of a \$50 per class surcharge when the document is filed in paper form, especially when the Office is legally obligated under the Trademark Law Treaty to accept paper trademark filings as well as electronic filings.

Fees That Reflect Increased Cost Are Fair

The IP Law Section supports surcharge fees in the bill that reasonably reflect actual costs. For example, surcharges for specifications and drawings that exceed 50 pages, and surcharges for abnormally high numbers of claims seem appropriate, to the extent they reflect added costs in examining longer applications or applications with more claims. It is reasonable to charge those who file 200-page applications more than those who file 20-page applications. The IP Law Section does not have data to say what the correct amounts should be, but in principle, we believe this is a fair approach.

Increased Fees That Are Punitive Should Be Rejected

The IP Law Section opposes increased fees that are punitive and fail to reflect actual costs. For example, the bill proposes that the cost for presenting the sixth independent claim be four times the cost for presenting the fourth independent claim. Such a fee has no relationship to the cost of examining an extra claim. See Sec. 41(a)(2)(A). The difficulty of examining a sixth claim is not four times the difficulty of examining the fourth claim. Surcharge fees for total claims (Sec. 41(a)(2)(B)) also escalate at a rate unrelated to added cost, and hence they are also punitive. While the Office states that it wants to “modify behavior” by discouraging applicants from filing more than 3 independent claims or 20 total claims, in many situations more than those numbers of claims are reasonable and appropriate, and they should not be discouraged by punitive fees.

As additional examples of punitive charges contemplated by the Office's proposal, the Office is seeking to impose punitive fees for filing related applications. Specific amounts are set forth in “Transitional Provisions” (Sec. 4(b)), and unspecified amounts are provided for in “Related Application Surcharge” (Sec. 2(a)(3)). We presume the amounts set forth in the transitional provisions are a prediction of what the unspecified amounts will be. Punitive fees would be imposed for related applications that are not “patentably distinct” from a pending application or an issued patent. See Sec. 41(a)(3)(B). There is also a proposed \$16,690 charge for a terminal disclaimer if similar claims are presented in three other applications. The Office justi-

fies this, in part, as a way to prevent applicants from avoiding the excessive claim fees mentioned in the previous paragraph. Similarly, to punish the filing of continuations, surcharges will be added when the benefit of parent applications is claimed. See Sec. 41(a)(3)(A). Also, escalating fees are proposed for claiming the benefit of more than one parent application (\$1,000 for three; \$4,000 for five), and these fees apply even if only one patent issues.

The proposal to raise the appeal brief fee from \$300 to \$1,600 also appears punitive. Historically the Office has not charged for an appeal, since it is frequently necessary to correct an error of the Office. Such a charge, if any, should not be required until after submission of the Examiner's brief in opposition, because many appeals are settled in the applicant's favor before the Examiner's brief is filed, essentially conceding that the applicant was correct.

The practices which the Office proposes to penalize with excessive charges are entirely appropriate in many circumstances. There are times when it is reasonable to have more than three independent claims and more than 20 claims altogether. Applicants often claim several important embodiments of the same invention, some of which may be patentably indistinct from other pending or issued claims. Also, the question of whether a related application is patentably distinct from another is often a matter of dispute between the Office and the applicant, and it cannot be decided properly until after the examination process is completed. As another example, sometimes one accepts allowed claims to limited subject matter and permits a patent to issue, but refiles to attempt to get broader claims in a continuation. Such practices not only reduce pendency time but they rarely require an additional search of the art, and they also reduce the number of appeals, actually saving the Office money. Also, filing related applications can be a good tool for providing full protection for important inventions. Punitive fees would discourage these practices, discourage applicants from seeking the coverage they feel they are entitled to, and weaken the system. Finally, related applications are often necessary because of the Office's action or inaction, and any excessive fees for them would be doubly unreasonable.

The burdens would be particularly heavy in some fields. For example, in the communications, data and software industries judicial rulings and legislation require various independent claiming forms and formats. One application may appropriately have transmitter claims, receiver claims, systems claims, method claims and means-plus-function claims. Such additional claims are unlikely to add substantially to examination time because they usually involve the same core combination of elements, but such claims might arguably not be patentably distinct.

Specifically, examples of punitive fees in the Act which we oppose by section numbers are,

Section 41(a)(2)(A)—Excess claim fees for independent claims;

Section 41(a)(2)(B)—Excess claim fees for total claims;

Section 41(a)(3)(A) and related transitional provisions—Surcharge for continuation applications;

Section 41(a)(3)(B) and related transitional provisions—Surcharge for continuation applications having patentably indistinct claims;

Section 41(a)(7)(B)—Surcharge for appeal brief.

In sum, the IP Law Section opposes legislation which would provide escalating filing and claim fees that are punitive. The Section also opposes legislation which would provide for punitive related application and other excessive surcharges.

Increases in Post-Grant Fees Are Preferable

To the extent necessary for Office operations (as opposed to matching an arbitrary, pre-set budget amount), the IP Law Section generally favors increases in maintenance fees over increases in filing and prosecution fees. Higher fees at the beginning of the patent process would discourage the filing of new applications, and hence they would discourage the disclosure of new technology. Also, higher fees would not necessarily increase revenue. For many companies, fewer applications will be filed in proportion to the increase in filing fees.

On the other hand, the costs of maintenance are easier to justify and pay once a patent has issued. Its value to the patent owner's business then becomes plain. If maintenance fees are paid at all, they are usually paid because the patents are worth significantly more than those fees. Any particular patent application, however, is a more risky investment; the patent owner does not know if the invention is patentable, or, if it is, how broad the patent will be.

Hence, increased maintenance fees, rather than increased filing and prosecution fees, are a better way to raise necessary revenue.

Deferred Examination Should Be Rejected

The bill proposes replacing the present single fee for filing and examination with separate filing and examination fees, and examination could be requested before any action is taken by the Office.

The advantage of this change to patent applicants is that it would enable the applicant to withdraw an application if it is determined that the invention has insignificant commercial importance before substantial costs are incurred. Applicants, however, who have doubts as to whether they want to pursue a particular application, already have this capability in the provisional filing procedure. For most applicants, however, the major cost is in preparing the application, and most decisions to abandon are made in that period. Deferred examination would add a layer of unnecessary procedure.

Deferred examination, however, has no benefit for the public because the claims that will be allowed would remain uncertain until issuance. The primary function of the Office is to protect the public from improperly issued patents. With the publication of patent applications, the public sees broad claims that may, someday, be issued as a patent, not the final version of the claims, whose appearance would be delayed by deferred examination. Such broad claims may create uncertainty and reduce investments. Industry, both large and small, needs a rapid and robust examination of the application to reduce that uncertainty. Deferred examination would increase that uncertainty and public cost.

Incidentally, there is a suggestion in the materials on deferred examination that the Office may begin counting the examination period from the time examination is requested or begins. We do not object to reporting additional times in the prosecution process, but we believe strongly that the Office should continue to report pendency from the date of filing as the primary indicator of pendency.

While we understand that deferred examination is expected to reduce the Office's workload, and hence reduce pendency, we believe the amount of that reduction would be small, and on balance any benefits of deferred examination are outweighed by the downsides to the users and the public.

Use of Private Sector and Foreign Patent Office Prior Art Searches Presents Several Problems

The bill provides the Office unfettered discretion to reduce examination fees for applicants who provide a search report that meets conditions prescribed by the Office. This will make possible the implementation of a four-tier search proposal, which would reduce the amount of searching the Examiners have to do. As a result, the Office expects to hire fewer Examiners.

The use of independent searchers raises a number of problems, from insuring the quality and uniformity of search results, to how searches will be updated if different claims are presented after the initial examination, to providing adequate facilities to enable these searchers to perform this work. The IP Law Section believes the Office should still maintain overall responsibility of the searching function and use foreign search results as a starting point rather than a substitute for its own searches.

We are convinced that U.S. Examiners generally can perform the best, highest quality searches in the world. We are concerned about any proposal to decrease the role of Examiners in the search of the art.

Many of us have spent part of our careers as Examiners, and we understand the process from the inside. An Examiner who is going to make an obviousness decision begins to make that determination as the search proceeds. When in the course of this simultaneous search and examination a certain element becomes important, the Examiner can adjust the search accordingly to find the best art with respect to that element. (One must keep in mind that under U.S. law, in contrast to the law of other countries, it is important not only to find each element of a patentable combination in the prior art, but also a teaching to combine the elements. One who does the prior art search but not the examination may find the elements, but not the teachings to combine.)

More than that, each of the 3500 U.S. Examiners gets to know quite well her/his art areas, which are highly focused.

We therefore believe that the search is part of the examination, and if the Examiner does not do the search, it will not be done as well, which would weaken the presumption of that validity. That presumption gives certainty to U.S. patents, and without a reasonable level of certainty, investors will not invest to develop new technology and create new jobs.

Additionally, maintaining the quality of private sector search firms may be difficult, and the public may have little confidence that persons in the private sector can be counted on to protect these interests of the public. Another problem would

arise if a private search authority is disqualified. Will the patents it searched before disqualification be presumed valid?

Even if the quality of searches were shown to be the same under some new procedure, we believe there are inefficiencies in the proposed process as a whole. While the Office may spend less if it puts the search on the shoulders of the applicant, as far as total costs to the applicant, the public, and the system are concerned, we believe they would be greater. The fee for the private search, which has been estimated at \$1,000, combined with the increased filing and examination fees, would increase the basic filing fee from its current \$740 to over \$2,500. Also, we doubt that savings to the Office would be great. We have seen estimates that time and cost savings to the Office would be no greater than 5%.

The best testament against separating the search function and an examination function is the fact the European Patent Office, which has had such a system for years, has recently decided to abandon it.

Some of our concerns are speculative. If the Office will perform studies to support this major change, and the studies show that the searches are equivalent, the examinations equivalent, and that there are significant cost savings to the system as a whole—we will be glad to consider them.

The Office is also proposing, as part of its four-tier system, to amend its rules to include a mandatory prior art statement and a mandatory statement of relevancy. The advantage of the provisions for a mandatory prior art inquiry will be the issuance of stronger patents, provided the Examiner continues to perform a search. The disadvantages to the applicant will be the increased costs during prosecution and the cost of determining in later litigation whether the new duty of disclosure requirements had been complied with. A simple solution to these disadvantages is not available where the duty of disclosure is expanded.

Several of the reasons we have given for adhering to our present system of having Examiners do the searching disappear or have less effect if the search has been done by a qualified foreign patent office, but the similarities among patent laws are fewer than one might think. We have already mentioned the issues raised by whether there is a teaching in the art to combine elements. A foreign examiner may not search for such teachings, and a U.S. examiner presented with a search that includes none, may allow a patent improvidently. In such cases we believe it is proper for a U.S. Examiner to accept a foreign Office's search as a starting point, but if the Examiner, based on a review of the art identified in that search, finds patentable subject matter, then a supplemental search should be mandated.

In sum, the IP Law Section believes that reliance by the Office on searches made by qualified Patent Offices of other governments may be appropriate, if supplemented when allowable claims are found, but the Section opposes the Director's accepting searches of private companies or requiring the applicant to make mandatory searches and statements concerning what is relevant in the prior art.

Post-Grant Opposition Procedures Are Conceptually a Good Idea

While not presented by the current legislation, we would like to comment on a number of additional proposals that have come up in the planning process. One of them is a post-grant inter partes opposition procedure.

We do not consider it a safety net that will excuse a poor initial examination. The Office should do its best to get examination and issuance right the first time.

We do, however, see a need for something short of full-scale litigation to remove uncertainties. A post-grant opposition of that kind we find acceptable conceptually. It should utilize the Patent Office ALJ's who currently handle interferences and have demonstrated that they can handle limited inter partes matters expeditiously. We contemplate that the procedure could be instituted within 12 months of a patent's grant and be over in one year, with appeal by either party to the Federal Circuit.

Accelerated Examination Would Be a Useful Tool

The IP Law Section also supports the Office's providing accelerated examination for an extra fee, which we understand the Office is considering, though it is not in the present bill.

Electronic Processing in Patent Operations Must Be Implemented Properly

The fee proposal contemplates funding of accelerated implementation of Patent e-Government, with an objective of "end-to-end" electronic processing by the end of FY 2004. The advantages of electronic processing to applicants will be expedited prosecution and issuance and in the long term, reduced costs. The disadvantages will be the additional up front costs, including hardware and software requirements, needed by applicants, their agents and attorneys to generate and prosecute cases electronically.

Initial experience with electronic filing in the U.S. has been that the Office has adopted software standards that are convenient for the Office, but they fail to comply with the requirements of practitioners. For example, the Office's initial software for filing a patent application electronically was designed for stand-alone use where the attorney prepares and submits the application from his/her computer. It did not permit the electronic document to be prepared in a network environment where the application would be processed by a word processing department and receive final review by a docketing department.

We understand, however, from recent reports that the Office may abandon its existing e-filing technology and instead adopt some version of the EPO software, making the U.S. system compatible with the European and Japanese e-filing systems. This approach would solve at least some of the existing problems with the Office's e-filing system.

CONCLUSION

We will be glad to answer questions and supply more detail on the recommendations we have presented. We would also welcome the opportunity to work with the Subcommittee and the PTO to develop a fee structure and other reforms that can attain the worthy objectives that are set out in, but not attained by, Director Rogan's 21st Century Strategic Plan.

Mr. COBLE. Thank you, Mr. Baker. And thanks to each of the panelists.

We have been joined, since we began, by the distinguished gentleman from Michigan, the Ranking Member of the Judiciary Committee, as well as the distinguished gentleman from California, the distinguished lady from Pennsylvania, and the distinguished gentleman from Alabama.

Ladies and gentlemen, we apply the 5-minute rule against us as well. But if need be, we will have a second round of questioning.

Let me start, Judge, with you. Ron Myrick, a long-active member of IPO and AIPLA, said not too recently that the PTO is nearing or has already arrived at a crisis. Do you agree, A? And if so, what risks confront the agency if we don't proceed with your strategic plan?

Judge ROGAN. Mr. Chairman, a few days ago, my two little girls that you know so well were watching the "Wizard of Oz." I'm not sure how close the cyclone has to get to Auntie Em's house before everybody starts heading for the cellar, but I can assure you that our storm windows are ready to close.

Whether we are in a crisis or approaching a crisis really is not what's relevant. What's relevant is what kind of damage is being done to America's intellectual property with a Patent and Trademark Office that increasingly is drowning in pendency and also raising issues respecting quality of patents that are being issued.

I don't think there's any dispute from any of the witnesses here today that pendency and quality are of utmost concern to them. And if that is the case, then we cannot wait until tomorrow to try to fix that. That's what this plan is attempting to address, as Congress has directed us to do.

Mr. COBLE. Let me put this question to the three witnesses to my left, starting with Ms. Barrett Park.

For years, we adhered to what I will call Plan A to help the PTO. Plan A meant that we tried to extract more money from the appropriators. And as I said at the outset, I have done battle with Democrat and Republican appropriators and usually come out second-best.

Now, we did save some money, considerably, last session. But still, the appropriators managed to walk off with a good haul. That strategy by itself doesn't work or hasn't worked.

Director Rogan has now developed Plan B. If we don't use his handiwork as a means to improve the PTO operations, what, Ms. Barrett Park, would your Plan C be to extend the late FDR's proposal, Jim, of trying something?

Ms. BARRETT PARK. Mr. Chairman, we don't think that we need to go to a Plan C. We think there is something we all can work with in the strategic plan, or, as you're calling it, Plan B, that Undersecretary Rogan has proposed. I think we're looking forward to having a constructive dialogue imminently to see if we can't get the strategic plan to a place where everyone, both the constituency and the agency, are comfortable with it.

Mr. COBLE. Mr. Kirk?

Mr. KIRK. Mr. Chairman, we would agree with Ms. Park's comments. There are, in this plan, a number of what we think are solid bases on which to begin to develop a change in the system that we work with. In the patent area, to start relying more heavily on the searches coming from other quality patent-examining offices, such as the European office under the Patent Cooperation Treaty or the other national offices with which the U.S.P.T.O. arranges a search agreement.

We agree with the plans that the office has announced for hiring more qualified people, for better training, for promoting after tests, and those types of things, for building a more adequate and reviewable record. There are many things in the plan that we find to be good ideas and ideas to build on.

Even the ideas of the increased fees for excess claims and lengthy applications, we don't oppose that notion. We think that those who file great numbers of claims should expect to pay the costs for having those claims examined.

We do not agree with punitive charges, however, because we think that applicants have very legitimate reasons for filing large numbers of claims in some cases, or at least more than the minimal number set forth in the fee bill. But we think those applicants should be required to pay for it. And to that extent, we agree with that aspect of the plan.

As far as the fees themselves are concerned, we stated at the hearing that you had in April on the President's proposal that we will support a reasonable increase in statutory fees, and we stand by that. What we do not support is a fee bill that is designed with the purpose in mind of diverting \$162 million.

Five years ago, when President Clinton sent a proposed budget to the Hill that suggested that there was \$50 million that was going to be raised by the Patent and Trademark Office, that he proposed to rescind because "the PTO didn't need the money," this Subcommittee took him at his word and gave a new fee bill to the President, one that reduced the overall fee revenue by \$50 million. Since the PTO did not need the money, you concluded the applicants didn't need to pay for that money, and we agreed totally with that view.

So in this particular case, we would not oppose an increase in fees. We would oppose an increase in fees designed to continue diversion.

Thank you.

Mr. COBLE. Thank you.

Mr. Baker, my time has expired. Hold your thought and——

Mr. CONYERS. Mr. Chairman, can I yield you some of my time?

Mr. COBLE. No, you go ahead, John. I'll get it on my second round. We will have a second round.

I recognize the gentleman from Michigan.

Mr. CONYERS. Well, let's continue the discussion, Mr. Baker.

Mr. BAKER. Thank you. I won't repeat the ideas people have said before me. We agree, generally, that this has got some good concepts in it; we should identify those good concepts. It has some bad concepts in it; we should identify those bad concepts.

One of the bad concepts is its settling for fee diversion. We would like to see that addressed in some way so that we can do what we can to change this bad policy decision.

But once we have identified the good and the bad, we would be glad to work together with the Subcommittee, with the office, with the other user groups, and come to a consensus.

Director Rogan, Judge Rogan, has done a great job, and his agency, in what amounts to 4 or 8 weeks. It just needs more to work.

Mr. CONYERS. Hi, Jim.

Judge ROGAN. Mr. Ranking Member.

Mr. CONYERS. What do you say about these comments?

Judge ROGAN. Mr. Chairman, I certainly appreciate people coming forward and saying, "I don't want to pay more fees." And I especially appreciate people saying, "I don't want to pay fees that the Director has admitted are punitive." And in some cases, Mr. Conyers, the fee structure is designed to be punitive, not because we're mean, not because we don't like certain aspects of technology, but because we have an agency that is not designed to handle some of the claims that are coming up.

Mr. Chairman and Members of the Committee, let me just give you a quick snapshot. We will get this year about 350,000 new applications that will go on top of a pile of 450,000 sitting in a backlog from previous years. We have about 3,200 or 3,400 examiners to handle all of them.

Now, when people send in multiple claims in an application—if you send in 10 independent claims in one application, that, in a very real sense, is like sending in 10 separate inventions in one file. We don't get them just with two and three and four. We get them with 100, 200, 300, 1,000, 5,000.

Now, if you have one examiner that's told to go and investigate this patent with 5,000 claims—we just had one from an oil company recently: 5,100 claims in one application. The system is not designed to handle them.

When we look at the world of biotech, some of the most important patents that come through, some that are bringing incredible increases to our economy, to quality of life, and everything else, the average number of claims that we grant on a biotech patent is 17 total. And yet, in some of these areas, either because——

Mr. COBLE. I didn't hear the figure, Jim. What was the figure? The average is what?

Judge ROGAN. Seventeen.

But we're getting many of these claims in in the hundreds and sometimes in the thousands.

Now, some of it is that they're not sure what they need to claim, and so they claim everything. They haven't seen a search report yet, and so they're throwing everything out there.

We're hoping that by competitively sourcing the search and giving our claimants an opportunity to look at a search report and weigh that against what they would like to claim, that in and of itself will help them narrow their claims.

But we simply cannot address the issues of quality and pendency when we are, for a very minimal fee, allowing applicants to start sending in things that the system is just not designed to handle.

Mr. CONYERS. Ms. Barrett Park, your turn.

Ms. BARRETT PARK. Representative Conyers, I am not a patent attorney, and I think I'm going to defer to one of my colleagues who can address that specific issue.

Mr. KIRK. Mr. Conyers, in terms of the number of claims included in applications, the PTO published a rule proposal back in 1998 in which it indicated that less than 5 percent—less than 5 percent—of all applications have more than six independent claims. So we have a proposal before us that's designed to start penalizing applicants. Nearly 18 percent of the applicants file more than three independent claims.

So the penalties are starting very early. We think too low; we think they should start at a higher number. And we think—we have no objection to the fees being charged to repay the patent office for the cost of doing the work. We don't object to that. And that in itself is going to have a salutatory effect, because to the extent that someone now gets a quasi free ride, in the sense that they don't have to pay the costs of examination, they're going to be given an encouragement, once they have to pay the full boat, to look at reducing the number of claims.

We don't object to that at all. Our concern is with the punitive nature of this.

Mr. BAKER. Just briefly, I think you've got to be careful about extreme examples. He cites one thing as 5,000 claims and now says, from that, I extrapolate that everything else—that punitive fees are appropriate.

The way it's drafted now, these punitive fees begin at a very low level. As proposed, the cost for presenting the sixth independent claim would be four times the cost for presenting the fourth independent claim. Now, there's no reason in the world that the sixth claim requires four times as much work as the fourth claim.

So we don't—there's got to be a more reasonable tie to the amount of work in these claims. And there's no reason to be punitive.

As I mentioned in my earlier statement, an applicant is not going to spend money on something he thinks is a waste of time. He is going to have his own reasons, in view of the patent law, to do it. If he wants to do it and pay for it, fine. But he shouldn't be penalized for doing it.

Judge ROGAN. Mr. Conyers, if I may, that addresses the issue right there. Right now, under the current system, there's very little additional an applicant has to pay to have a shotgun approach. Under the system that we are proposing, we want them to be more selective in what they send to our examiners, because our examiners are expected to get these applications out through the door and get these products to market, if indeed they are patentable.

Mr. COBLE. I thank the gentleman. And we'll have a second round, if you have other questions.

The gentleman from California—I see the gentleman from Tennessee has departed. Mr. Issa is recognized for 5 minutes.

Mr. ISSA. It's good never to leave your seat. [Laughter.]

Mr. ISSA. Thank you, Mr. Chairman.

I, too, am concerned with a couple of these proposals. And I'll sort of take them in economic and then maybe non-economic order first. And I guess the economic one that I'd like to understand, and, Secretary Rogan, maybe you can, since you're the author, or at least the named person here of this plan, I'm trying to understand a little bit.

If you have a fee to do something which is constitutionally mandated—we have no choice, Congress has no power to stop patents. We have an absolute responsibility to ensure that Government provide them. And we have a fee, and that fee is being siphoned off, and we get more fee, then that's a tax increase, isn't it?

Judge ROGAN. If you're asking me the question, Congressman Issa, from a philosophical standpoint—

Mr. ISSA. We'll start with philosophy here.

Judge ROGAN. It sounds like you're reading one of my prior speeches as a former Member of this Committee.

Mr. ISSA. You know, Jim, what I really like is I know you've sat in this seat, and I know what you would have asked. [Laughter.]

Judge ROGAN. And it sounds like you know how I would have answered. [Laughter.]

Mr. ISSA. But I want to hear it. I mean, Jim, this is a tax increase. If we assume what is likely to happen, which is at least some of it over time will be siphoned off, unless we change a policy that has gone on for a decade of taking what is called surpluses, and now you're going to produce more surpluses.

You know, I'm an old—I'd like to say not "old," but I guess an old Reaganite, and I know what a revenue enhancement is. It's a tax under a Republican administration.

Judge ROGAN. Mr. Issa, I'm not going to quarrel with you on this, because I've made the very same speech myself as a Member of the Committee. The question before Congress is whether or not the President's request for additional funds is a worthwhile request or not.

Now, in his budget, he requested that this agency, the PTO, contribute from a \$1.5 billion budget essentially 10 percent, \$162 million. He has requested from the PTO through the revenues that come through from the user community for homeland security. And the question for not just the user community but for Congress is whether or not that is appropriate, and Congress will make that determination.

Mr. ISSA. Okay. Well, for this particular Member, since I have the luxury of being on this side of the dais, I don't believe we have a right to tax patents. I don't believe we have a right to tax an obligation of Government. An obligation to deliver when taxed is in fact a breach of the obligation to deliver.

We have a right to take those funds which would be legitimate overhead. And if 10 percent is a legitimate overhead of the Federal Government, I don't have a problem with it. I do have a concern that, in fact, blatantly in this administration—my administration, I'm proud to say—is making a mistake in this case and is in fact assuming that this revenue source is a legitimate revenue source to be siphoned off. And I guess that is a philosophical concern that I have.

Is there anyone else on the panel that wants to take on the constitutional question, or would you rather get to the next part?

Then we'll get to the next part.

Secretary Rogan, you probably will be pleased to find out that I support the concept of being punitive with excessive claims. Like some of your panelists, I'm a little concerned if three is excessive. One of the questions I have, though, is, why is it that independent claims should be penalized in any way, shape, or form, when in fact the proliferation is typically you've got one idea and 4 million ways of expressing it, or 5,100 ways of expressing it.

Judge ROGAN. Well, we're not saying that people shouldn't express it. We're just saying that we hope that they'll express it in a reasonable fashion that is within our capacity to absorb it and to get the file out through the process, through the pipeline in a reasonably proficient and quality-driven manner. And some of them just overwhelm the system.

And if I may, for the benefit of my colleagues here at the table, I am the first person to concede that there may well be individual cases, individual files, that warrant excessive claims. There may be some technology so unique or something that really is very narrowly drawn. And in that instance, Mr. Issa, Members of the Committee, although it isn't expressed in the plan, I certainly would have no objection to Congress attempting to give us the right not unilaterally to increase fees, give us the right to rescind fees or to rebate fees. I think if in fact we are granting claims in applications that are warranted, that there ought to be some recognition of that.

The trouble is, Mr. Issa, that so many of these claims end up getting rejected, so many of them are just thrown out in shotgun approach, that it overwhelms us.

Mr. ISSA. Mr. Chairman, if I can do a quick follow-up on the same line?

Since you're pointing out the possibility of some sort of a waiver authority, would you also support a waiver authority when—let's just say that there's a single invention and hypothetically a hundred independent claims, that in fact if there is effectively a requirement, which there is in many cases, that you not bifurcate that into multiple patents, that that would be a natural area for waiver, rather than when, obviously, when most of the time there is one independent and gazillions of dependent claims.

Judge ROGAN. I think, knowing you as I do, Mr. Issa, as a true free-market conservative, I hope this answer will appeal to you.

What we have attempted to structure is a fee system that simply says, “if you’re going to make us do more work, we’re going to charge you more. If we do less work, we’re going to charge you less.”

And as far as the fees being arbitrary and capricious, I have conceded that some of them are designed to be punitive. But if I may, under the proposed fee structure, if you have four independent claims and 40 total claims, the fee is \$6,000. Is that arbitrary and capricious on some very highly technical patent application? That’s for Congress to decide. But right now the cost is \$444. Is that a market-driven solution? I don’t think so.

So that’s what we are attempting to bring into this. We have to account to Congress for every dime that we spend.

Mr. ISSA. Thank you. Thank you, Mr. Chairman. I’ll wait for the second round.

Mr. COBLE. I thank Mr. Issa.

We have now been joined by the late Howard—— [Laughter.]

Mr. COBLE. I say that with tongue in cheek, because they know where you’ve been, Howard. Howard, we are just completing our round of questions, would you like to make your opening statement now?

Mr. BERMAN. Would you be offended if I just put my opening statement in the record?

Mr. COBLE. We won’t be offended at all. It’s good to have you with us, Howard.

Mr. BERMAN. It’s good to be here. I think I’ll sit back awhile.

Mr. COBLE. All right, sir.

[The prepared statement of Mr. Berman follows:]

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman,

Thank you for calling this hearing on the Patent and Trademark Office’s strategic plan and proposed new fee schedule.

I commend Director Rogan for providing us with a detailed and comprehensive plan for the PTO’s future in a short amount of time. I am sure Mr. Rogan understands that, without the vision provided in the strategic plan, it would be difficult for this subcommittee to understand and support any changes to the fee schedule. I appreciate this foresight, and look forward to a careful scrutiny of the PTO’s plan for its future.

The PTO plays a vital role in fostering innovation and generating new commercial activity. In order to fulfill this mission, substantive and immediate changes are needed. Current patent pendency is nearly 24 months, and the PTO has a backlog of over 400,000 applications. The annual workload growth rate is as much as 30 percent. The PTO is already overwhelmed by its current workload, and without immediate action it will be completely unable to meet its quality, pendency, and technology goals.

Part of the solution is to provide the PTO with the funding it needs to fulfill its mission. Chairman Coble and I have long sought to end the use of patent and trademark fees in funding other non-PTO programs in the government. H.R. 2047 authorizes the PTO to retain all the fees it collects. This bill passed in the House last November, and the Senate recently approved a similar authorization measure. In the meantime, however, the FY 2003 budget still diverts \$160 million out of the PTO. It is difficult for us to determine appropriate fee schedules for the PTO when such diversion is taking place. The proposed fee schedule does not reflect the actual cost of services provided, but rather the bottom-line amount that the Administration budget requires, including the diverted funds.

Inventors and intellectual property associations have expressed their concern about proposed fee increases—particularly the expensive, behavior-modifying fees that are not commensurate with the cost of evaluating the application. These behav-

ior-modifying fees appear to be designed to encourage small, separate applications. This will strongly penalize the high-tech and biotech industries, whose patents are often incredibly complex and can contain many claims. The behavior-modifying fees could cripple these industries and discourage them from filing patents. In evaluating the proposed changes to the fee schedule, we need to consider not only the effect on the PTO, but also its impact on innovators.

The fee schedule is only a small component of the changes planned by the PTO. Other proposals, such as external search services and the multi-track examination process, will also require careful consideration. Additional oversight and legislation will be necessary before a complete solution for the PTO can be developed. I hope this will be the first of several hearings for this committee to evaluate and implement an appropriate strategic plan for the PTO.

Mr. COBLE. Now, I believe the gentlelady from Pennsylvania arrived, Spencer, before you did. So I'll now recognize the gentlelady from Pennsylvania for 5 minutes.

Ms. HART. Thank you, Mr. Chairman.

I have several questions, and I think I'm going to start with my first line of questioning dealing specifically with from what I understand are covered under class 705, which is data-processing, financial business practice management, or cost-price determination area of patent sector.

I've been approached by some constituents who are part of a coalition that's comprised of financial services companies that are dedicated to helping to improve the functionality of the Patent and Trademark Office. Most of the patents that they seek are in that class 705, as I mentioned.

As I understand it, there are currently under 100 examiners who are able to examine patents in this class. And the information that I have suggests it would take about 300 examiners 3 years to clear the backlog, because apparently it takes up to 5 years to have a patent granted in that class.

So as it currently exists, the Patent and Trademark Office is not working for these people. This is what they're telling us.

I want to know, basically, I guess, Mr. Rogan, if you can address that, what the plan is to really specifically address the 705 backlog. And anybody else on the Committee, if there are suggestions and things that you've been working with PTO, to try to make sure that backlog can be relieved?

Judge ROGAN. Ms. Hart, you're referring to the business method patents?

Ms. HART. Yes.

Judge ROGAN. As a politician, I love to take credit for things over which I have absolutely no control, but on this one, I'm afraid I can't. My predecessor under President Clinton, Todd Dickinson, I think did a superb job. And I think it actually started under Bruce Lehman, who is well-known to this Committee.

When business method patents were first coming through after the Supreme Court ruled—and I think it was the *State Street Bank* case—that that essentially was something that we had to patent, we had somewhere around a dozen to 15 or 20 examiners, many of whom were not versed in the arts. A lot of patents were coming through that the user community and the courts were complaining about.

And so under Mr. Dickinson, he became very aggressive. He not only hired I think upwards of 100 examiners in that area, he instituted a very rigorous training process for them, bringing in private

industry, bringing in people who were versed in the arts, to help educate our examiners on what art is out there.

He implemented what I think has been very productive, what has shown to be productive, a second look on those applications.

From the user community that I've spoken with, and I've spoken to thousands of lawyers since I took this job, I've spoken to thousands of users, what I hear is the problem in that area—the problem stories tended to be earlier not now, that in fact the satisfaction level is much higher now under what was done under the previous Administration than when *State Street Bank* first came down.

Right now, those filings have leveled off a bit. I think we're at somewhere around 5,000 to 6,000 a year. Our core of examiners who are assigned to handle those can handle about 6,000 a year.

We think that filings in this area, because they've leveled off—

Ms. HART. Excuse me for a second. When you say they can handle that many a year, does that mean that they're actually approving them in fewer than 5 years, as my information suggested?

Judge ROGAN. Well, I can't tell you what the average turnaround time is in that particular art unit. Overall, it's running about 27 months. But in some art units, it's much more. In the electrical arts—it may well be that business methods is running higher also.

What I can tell you is that the filings have leveled off to the point now where we are able to handle right now slightly more than are coming in. And there is a backlog. And so our examiners are trying to go through them.

I think we just hired another 12 to 15 examiners in that particular area.

Ms. HART. So there are probably about 120 there now?

Judge ROGAN. I think we have a little more than 120 right now, 125.

Ms. HART. So you're under the impression then that sort of the negative picture that was painted for me is probably improved?

Judge ROGAN. I don't have the average time on a business method patent for you. I can get that information for you. That wouldn't be hard to obtain.

Ms. HART. That would be great. Thanks.

Is there anybody else that has a comment on that particular sector? Mr. Kirk?

Mr. KIRK. Ms. Hart, I would agree with Undersecretary Rogan. I think the business method patent area is not unlike the situation that existed with the biotech area in the mid-1980's. When there was an explosion of biotechnology applications following the Chakrabarty case from the Supreme Court, the office got caught way behind the 8 ball on that. But it reorganized all of the biotechnology arts into one group. It hired a number of examiners, over half of whom have advanced degrees, master's and Ph.D.s. I think that they have, by and large, gotten control of the biotech. I think the same phenomenon is occurring in the business method patent area.

Ms. HART. How long over the past what period would you say that that's occurring?

Mr. KIRK. Which is occurring?

Ms. HART. The sort of reorganization and focus on that as a sector has occurred?

Mr. KIRK. With business method or biotech?

Ms. HART. I don't care about biotech; within the business method. [Laughter.]

Ms. HART. I do care about it, but not for this question. [Laughter.]

Ms. HART. It's big back home, but they're not complaining, fortunately.

Mr. KIRK. Okay. The business method, it is my sense that that has been roughly about 3 years, because the *State Street Bank* case was 1998, if I recall correctly, and that tended to open the flood doors to business method patent applications and problems about quality et cetera were starting to be made, and the lack of resources to handle those cases. I think the Office has moved aggressively and appropriately to address those issue.

Ms. HART. Okay.

Judge ROGAN. May I just add a quick point to that?

Mr. COBLE. The gentlelady's time has expired. Hold that thought, Jim, and we'll get you on the second round.

Ms. HART. Thank you, Mr. Chairman.

Mr. COBLE. The gentleman from Alabama.

Mr. BACHUS. I thank the Chairman.

Would you like to be addressed as Secretary, as Congressman, or as Director? What would be——

Judge ROGAN. How about "Jim"?

Mr. COBLE. Judge.

Mr. BACHUS. Judge, okay. Judge, and that's the right—I had heard "judge." Is that because of your present position?

Judge ROGAN. No, it's because people are much nicer to folks called "judge." [Laughter.]

Mr. BACHUS. Is that right? Now, I know you were a municipal court judge in California.

First of all, I want to express my gratitude for your service here in Congress and would ask that you convey to Cris and the twins Linda's and my affection. And we very much miss you up here. I'm glad to see your service continued.

I'll follow up on Ms. Hart's questioning, because she and I are both Members of the Financial Services Committee, so we do have financial services companies that are very interested in business methods, both in patenting them but also in being sued by their competitors who claim that they have a business patent for what they're doing.

So I suppose my question would be—I'm sure you're already aware of this, but companies are being forced to settle lawsuits over business methods, as opposed to go to trial, because—sometimes because of the backlog at the patent office. They simply can't get those issues disposed of.

What do you suggest we do to improve maybe patent office procedures by way of reexamination and opposition to invalidate what may be invalid patents, to avoid this high cost of litigation, what I call questionable patents?

Judge ROGAN. If I understand the question, Mr. Bachus, it's really two parts.

Mr. BACHUS. Yes.

Judge ROGAN. Number one, how did we get the backlog? The backlog occurred because when the *State Street Bank* case first came down—

Mr. BACHUS. Right. And I think that was 1998, so your business methods is about 3 years old. And you had the *Amazon* case, which I guess is a prodigy of that.

So you've been kind of caught shorthanded, I know. And I think the former line of questioning sort of addressed that.

Judge ROGAN. And when that case came down, we had about a dozen or so examiners. I think we had about a dozen in that area. Now we've increased it tenfold. And we're able now to start not only moving the cases in appropriate time but also attack the backlog. But it required having the manpower, if you will, to address those.

With respect to reexamination, we believe there should be a vigorous reexamination process. There is a proposal within the strategic plan, a recommendation to Congress, on that. I know that this is an issue that the Subcommittee has been engaged in for a long time.

The problem with the post-grant examination we have right now on inter partes examination is when Congress passed at the time the AIPA we thought we were providing a cheaper alternative to expensive litigation. Unfortunately, because there was no appeal to the court of appeals from an adverse patent office decision, if somebody went through our reexamination process—last year we had, I think, four people use it—it was anticipated to be an alternative to expensive litigation. It ends up being something that is just simply not being used, among third parties, because they just don't view it as a worthwhile—

Mr. BACHUS. I think it's very important, because we've got this new *State Street Bank* decision, that we do two things. One is we establish a way to reexamine and invalidate some of these questionable patents. The second thing, the financial services companies have expressed an interest in aiding the patent office by establishing a "library" of I think it's called prior art in—I think these are class 705 patents.

Anybody like to comment on that? Is there any progress being made? Are you aware of that?

Judge ROGAN. The only comment that I would make is that they have been, from 1998 on, extremely helpful in already doing that and in educating our examiners. The concern that the Committee had, particularly Mr. Berman, who has authored bills on this, was to make sure that people weren't submitting patent applications that were being granted based upon simple business practices that have been out there forever are now just being digitized.

Mr. BACHUS. Well, that's exactly my point in all this, is that it is creating quite a burden on industry, I mean, particularly I know the financial service industry. I know you had that *Amazon* decision that came down. That's a little different. But it came down right before a busy sales time.

But what happened, they're settling these cases because they can't get a reexamination or a decision. They're just going ahead and paying off. And it's encouraging frivolous lawsuits. It's encouraging a lot of these patents.

And let me just say—I know my time has expired.

Mr. COBLE. The time has expired.

Mr. BACHUS. But I would like to associate myself with the gentleman from California in saying that we've talked a lot about funny accounting, but this putting a surcharge on and then diverting \$126 million or whatever the figure is to homeland security is funny accounting. I think that the surcharge ought to be used; it ought to be used by the patent office. But it shouldn't be used as a new tax and masqueraded as something else.

Mr. COBLE. The gentleman's time has expired. You can pick up on that especially in the second round.

You mentioned your immediate predecessor, Mr. Rogan.

Todd, it's good to have you in the audience.

I don't see Bruce Lehman here, but if Bruce is here, we're glad to have him as well. But I don't think he's present.

The gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman.

I just want to pick up on the line of questioning not directly related to the issues presented by the hearing but on business method patents that Ms. Hart and Mr. Bachus addressed. One is to see if I perhaps could persuade them to associate with the legislation of another Member from California, myself, who is concerned about the conceptual questions raised by business method patents.

Are we now at a point—I mean, this is different than biotechnology, in one sense. Biotechnology was something new, scientific, technical, and appropriately patentable.

There are more serious questions raised about being able to patent a method, a business method. Is it technical? Is it science? Is it novel? Is something done in the computer world that is a method done through computers, as opposed to patenting a particular kind of software, something that should be subject to patents?

And I have introduced some legislation which doesn't directly undo the notion of patenting business methods but raises the bar for qualifying for that patent. And I just wanted to suggest that—

Mr. BACHUS. Would the gentleman yield for just 10 seconds?

Mr. BERMAN. Sure.

Mr. BACHUS. I'm not sure that—if we had started patenting innovative methods of doing things, I'm not sure that we would be where we are today, because there's a certain amount of just natural innovation involved. And I think that I totally agree with you. It's stifling innovation out there.

Mr. BERMAN. Just reclaiming my time, I mean, people have patented a golf swing, a way of high jumping, the Fosbury Flop. Priceline.com, the idea of the reverse auction—well, before there ever was an Internet, there were reverse auctions. Was this something novel and new?

So there is some legislation on that. We've had some hearings and discussions on it. And I just throw that out for you.

On the fee issue, there's some confusion over whether these fees are to be applied retroactively to any pending application as of last October 1st. These are large, behavior-modifying fees. One can discuss the wisdom of moving in that direction for the future, but I think the notion that people who went in under the existing proc-

ess will now—because of our desire to modify behavior in the future, and change the fee structure, should they be swept in under that, Mr. Director-Judge-Congressman?

Judge ROGAN. I appreciate the question, because it gives me an opportunity to clarify the record. It was not our intent in submitting the proposed language that those fees be retroactive for the very reason that you suggest, Mr. Berman. It would not be behavior modification.

I'm told by a number of people who have looked at our draft subsequently that there is some ambiguity in that. And so for whatever legislative history that this record can be made a part of, it was not the intent of our office in submitting that.

Mr. BERMAN. I have no further questions.

Mr. COBLE. I thank the gentleman.

The distinguished gentleman from Utah.

Mr. CANNON. Thank you, Mr. Chairman.

I apologize for being here late. I had to be in a markup in the Parks and Public Lands Subcommittee, where we were trying to consolidate the public children's school trust lands, and my bill was there, and I had to move it through that Committee. I apologize.

I welcome—I was just thinking of all these titles, Jim, and some oddball ones came to mind. I won't go through those. [Laughter.]

Mr. CANNON. I prefer the title "friend." But it is nice to have you back here again.

Let me first of all say that I associate myself with the gentleman from California on this difficult issue that we're going to have to confront in the next Congress or in the near future about the proliferation of patents in ways—patents, trademark, and other protections that inhibit creativity and impede progress. That's an issue that we'll have to come back to. And my good friend Mr. Berman is right on that. We need to deal with that. And you, of course, are in the vortex of that issue, and so I suspect we'll spend some more time on that.

There's been a lot of talk about rates going up. It seems to me you're in a real box here. You have to come back and ask for rate increases and then our—you can't agree with this, I know, because of your position—but our appropriators then take that money and divert it to other purposes, which means you get to be the bad guy and come back here and ask for increases in the authorization, for increased rates. And then we suspect that the appropriators will continue to divert that.

I appreciate the fact that you commented that you're making progress on your backlog and that sort of thing. I think it is deplorable that you don't have the resources to move more quickly. But I do congratulate you on the carefulness and the continuity of the progress that you're making in your backlog.

I do have a question first for you and then for other members of the panel, if they wish to comment.

I have several constituents who are small-business men who have complained about the fact that once they file a patent fee and pay the initial registration fees, they still pay maintenance fees on those patents. They're charged after 7 and a half years and again after 11 years. They complain, and we've had a number of these, that when they must defend their patents against some very big

companies—these tends to be small companies where patents ought to be effected—they don't get any help from PTO. They're essentially on their own.

So the question they have, and my question to you is, what are they getting from the PTO in exchange for these maintenance fees? And what can I tell them? First of all, Mr. Undersecretary, and then other members of the panel, if you wish.

Judge ROGAN. Well, Mr. Cannon, what you could tell them is that Congress sets those fees. But I'm not sure that's an answer you want to give.

The maintenance fee is statutory. It's set by Congress. And it is precisely what it calls itself, to maintain the patent.

A lot of people choose not to maintain their patent because the economic viability of their patent in the first year is no longer the same as it is in the fifth, the 10th, the 15th, or the 20th year. That is particularly true, I think, in software, where something that comes out today may be the latest innovation, but in 2 or 3 years, we're four or five generations away from it.

So in a lot of those areas, maintenance fees aren't being paid. It really is the choice of the applicant to decide if they still want to maintain that patent and still have patent protection. But that's a fee set by Congress.

Once we issue the patent, we no longer have any meaningful jurisdiction over that patent.

Mr. CANNON. But essentially what you're saying is this is just another way to gouge people in the public for fees that come in—you don't have to say this. You don't even have to nod in agreement. But the fees come back in and then they get appropriated for other purposes, and then you don't have much to do with that, with challenges in the future.

Judge ROGAN. I'm holding my head as still as possible at invitation of the question. [Laughter.]

Mr. CANNON. Thank you, Congressman.

Anyone else on the panel?

Mr. BAKER. I would just comment briefly that, leaving the diversion issue aside, assuming that all the moneys that users pay went to the patent office for its purposes, there are reasons to keep the fees at the beginning low and pay more in the maintenance as the patent goes along, because you want to encourage filings.

So if I had to pick a way I want the pain, I would rather have the pain at the end where the patent is out there, you know you're making money on it, you know what it's worth. Charge me the fees there, but don't charge me the fees at the beginning. Let me get it in the door.

That's good for the public. The more disclosure, the better.

Mr. CANNON. That's a great idea. In other words, the ones that continue carrying the burden or the cost of the office are those who actually have a patent that has had some meaning and some financial success. That's a great idea. Thank you very much.

Mr. Chairman, I yield back.

[The prepared statement of Mr. Cannon follows:]

Congressman Chris Cannon
Patent and Trademark Fee Oversight Hearing
Courts, the Internet, and Intellectual Property Subcommittee
July 18, 2002 10:00 AM
2141 RHOB

Questions

Undersecretary Rogan,

Welcome again my friend it is good to see you, and I appreciate the opportunity to make clear in yet another hearing that the root of all funding and upgrading and backlog problems for the PTO, and the reason that rates keep going up, is that appropriators in Congress are diverting patent fees to other purposes.

I fear we have created a cycle of dependency for our friends at the Appropriations Committee – they divert revenue raised by patent fees, they underfund your agency which leaves you with backlogs and aging technology and that in turn leaves you with no choice but to come here and ask us to authorize higher fees on patents and trademarks to give you the necessary funding to process trademarks and patents. Once we authorize increased fees, the appropriators just divert even more money from the PTO so you never see most of the revenue generated by the fee increase and the whole vicious cycle starts all over again. You are the favorite honey pot for those looking for additional sources of revenue, they get the money you generate and you get the blame for raising fees.

I won't ask you to agree with me Jim because I know you have to go back to the appropriators, but that is the way I see it.

I do have a question though for you first, and then for other members of the panel if they care to comment.

I have several constituents who are small businessmen who have complained about the fact that once they file a patent and pay the initial registration fees they still must pay "maintenance fees" on those patents that are charged after 7 and a half years and again after 11 years.

They complain that when they must defend their patents against some very big companies they do not get any help from the PTO, they are essentially on their own. The question they have, and my question to you is: What are they getting from the PTO in exchange for these maintenance fees? What can I tell them?

First to Undersecretary Rogan and then to anyone else.

Mr. COBLE. I thank the gentleman.

Round 2, Ms. Barrett Park, place your trademark cap on, if you will.

In your written statement, you addressed the recent PTO notice in the Federal Register regarding the agency's desire to raise the trademark fees by \$50. If you would, summarize this issue and explain INTA's objection to it. And I was going to ask you if the increase is needed, but I think I know what your answer to that would be, but you can still respond. And should we in the Congress be evaluating its propriety along with the proposed fee schedule?

Ms. BARRETT PARK. Mr. Chairman, the issue is that the PTO has, as you said, a rulemaking notice in the Federal Register in which it proposes to raise fees for trademark-related submissions on paper, for which there is an electronic version available, by \$50. We have two objections to this. One is budgetary, and the other is statutory.

On the budgetary side, the current fee structure which became effective in January 2000 raised trademark fees, including the basic filing fees, to fully cover the costs of trademark operations. These increases were clearly premised on a paper-based system, since at that time not even 20 percent of filings were being made electronically. We've seen no evidence that the current cost of processing paper applications and the like requires additional fees. While there may be a differential between the actual cost of processing paper versus electronic, there isn't any evidence that the cost-recovery model that is currently in place is not working.

If that were the case, since 70 percent of trademark applications are still filed on paper, we'd see the trademark side of the PTO operating at a severe deficit, and we have no evidence of that.

On the statutory side, this is a fee increase. It's a fee increase over CPI, and that is Congress's prerogative to do that.

Mr. COBLE. Then let me put this question to you, Judge Rogan and other members, why is it imperative to enact the fee schedule changes prior to 1 October? By that I mean, could not the Subcommittee, could not the agency, could not the user groups, sort through the fee schedule and other proposals more thoroughly, you know, without a stopwatch being held upon us, and perhaps build a greater consensus for reform?

Who wants to respond to that?

Judge ROGAN. Well, Mr. Chairman, I guess I can start.

Congress can do that. But the same status quo that this Subcommittee correctly has derided for years continues for another year. And as the Chairman and the Members of this Committee know, hiring examiners in and of itself is not a fix, because bringing in 750 untrained examiners does not allow us to meaningfully attack the backlog at all. It takes years to train an examiner.

If Congress were to feel, if the user community were to feel that the status quo is acceptable, that pendency can continue to go up, that we're not going to begin the investment right now in trying to turn it around, then industry is hurt, jobs are hurt, the economy is hurt, technology is hurt, and all of the pathologies that go along with it are hurt.

Mr. COBLE. Mr. Kirk?

Mr. KIRK. Mr. Chairman, given the stage of the Congress that we're at, I think that we do have time to reflect upon what an appropriate fee schedule should be and to try to refine the plan. We received information that the Senate Appropriations Subcommittee, CJS Subcommittee, has tentatively marked up PTO's appropriation for fiscal year 2003 at a level we believe of approximately \$1.145 billion. Now, that is considerably less than the \$1.527 billion in the President's and now in the PTO's fee bill, if that is an accurate number, and I stand to be corrected, because it's very difficult to get this information out of the appropriators, as you can imagine.

Nonetheless, this would represent a very significant amount of money out there to be grabbed, to be used elsewhere. So we think we've got the time to look at this fee bill, to look at the plan, to try to determine what's appropriate, to try to fund and to move forward, and to ask this Subcommittee to work with the appropriators to try to get them not to divert additional funding that we might send to the PTO.

And I emphasize again that AIPLA would support a reasonable statutory fee increase. We're not against any fee increase.

Judge ROGAN. Mr. Chairman, may I just briefly comment on that?

Mr. COBLE. Sure.

Judge ROGAN. Because diversion is on everybody's mind.

One of the fundamental reasons that the appropriators have always used for diverting PTO funds is that they don't think the PTO is aggressive, that they work off the same model, and they, therefore, are not using the fees wisely.

And so if we delay this program for another year—if you accept that argument, doesn't that just allow the argument for diversion to remain for another year?

Mr. COBLE. Mr. Baker, I cut you off before. I'm not going to cut you off again. If Howard will let me—

Mr. BAKER. I will be brief, since the red light is on.

We believe that we should take the time needed to build a consensus, which certainly does not exist for this schedule, and get it right. While President Roosevelt said we should do something, I don't think we should do something wrong, and there are some serious things wrong with this bill. I don't think that we preclude some of the things in this plan from being implemented as promptly as possible, like his electronic filing matters and quality issues.

Mr. COBLE. Do you want to be heard, Ms. Barrett Park?

Mr. BAKER. Congressman, the INTA concurs.

Mr. COBLE. Very well.

The gentleman from California. [Laughter.]

Mr. COBLE. I didn't realize the other gentleman from California had arrived.

Howard, you're recognized for 5 minutes.

Mr. BERMAN. Thank you, Mr. Chairman.

Jim, in a phone conversation I had with you, and then subsequently in a public way, you indicated your intention to lay off some attorneys, a large number of attorneys, in the trademark office. On July 11th, just recently, a group of us sent you a letter, asking you to, from a business point of view, lay out your thinking, the rationale behind the layoffs, the proposed layoffs, and to con-

template certain scenarios and the likelihood of scenarios which might raise in your mind and in the Congress's mind questions about how extensive should they be and the wisdom of those lay-offs.

I was curious whether you'd be willing to sort of hold off on a final decision until you've at least responded to the congressional letter on this subject.

Judge ROGAN. Mr. Berman, first, thank you for letting me know that letter is forthcoming. I hope you didn't send it through the regular mail. We won't see it for 3 or 4 months. I have not seen your letter.

Mr. BERMAN. We faxed it.

Judge ROGAN. Okay. I just haven't seen it yet.

Mr. BERMAN. Okay. July 11th.

Judge ROGAN. Thank you. It's probably working its way through the bureaucracy.

Mr. BERMAN. The backlog? [Laughter.]

Judge ROGAN. Maybe.

As we've discussed previously, this is a situation that nobody likes but I've inherited. Filings have dropped over 2 years on the trademark side some 30-plus percent. Hirings were made during the dot-com increase. When I came on board almost a year ago, I met with our trademark folks informally and formally and told them that the recommendations are coming through for a RIF, that we have more lawyers than work, and I'm going to hold off RIFing anybody until the end of the fiscal year to see if filings do pick up.

We did that. I kept my word. The filings did not pick up. Filings have gone down. They continue to go down. The unanimous recommendation of the trademark commissioner's office is that the RIF be put in place. And the fiscal year is coming to an end. Congress has told us that we have to run the agency like a business. And it is regrettable. We're going to do everything we can to try to find places where we can absorb people. But the RIF is set to go into effect on September 30th.

Mr. BERMAN. Could I ask you this—I am advised that actually in the last 6 or 7 months, the filings have started to pick up again, and that they're now about, almost 40 percent higher in the month of May than they were at their low point in January. Forty percent is high; 20 percent higher.

But could you take a look at the letter a group of us sent you?

Judge ROGAN. Certainly.

Mr. BERMAN. And think about just the extent to which—I understand what you're saying, but think about the extent to which issues raised by that letter and information sought in that letter could be responded to, so that Congress could have sort of the full basis of your thinking and your answers to some of the questions raised before you actually undertake them. I just leave you with that request.

Judge ROGAN. You certainly are entitled to that. And now that you put it on my radar, I will address that forthwith.

Mr. BERMAN. Great. My other question is on—and by the way, we can provide a copy of the letter. We have it here.

On sort of these behavior-modifying fees, I'm not philosophically against behavior modification through financial disincentives. It's called a progressive—no, that's something else.

Judge ROGAN. You're always trying to paint me as a Democrat, aren't you? [Laughter.]

Mr. BERMAN. Social engineering in the patent office. [Laughter.]

Mr. BERMAN. I guess that's the underlying question. In the cases where these multiple claims cause much more work for the office, is this an effort to have the users really pay for what the office is having to do? Or is it to discourage certain practices by so increasing the fees that companies and individuals that are engaging in that will no longer want to do it? And if it is the latter, what's the underlying policy that says that's a bad thing to do and we want to discourage you from doing it, rather than we simply want you to pay your fair share of our costs?

Judge ROGAN. It's both. It's both.

Mr. BERMAN. And then what's the underlying policy for the behavior modification as opposed to the costs of the office in processing those claims?

Judge ROGAN. Because if we don't change the system, if we allow, particularly in the most complex areas of technology, people to submit claims that are not always thought through carefully, that are as broad as possible, that are on their face not patentable, and do that in multiples of tens and hundreds and sometimes thousands, it makes it I'll say problematic if not impossible for an examiner to be able to give a meaningful review to that filing.

I guess if I were to analogize it, if we get a high-tech application that comes through with 5,000 claims, which we've had, this is 300 times the size of the average claim application that we get. It would be akin to you going to a town hall meeting with 300 constituents and telling 299 of them, "I can't answer any of your questions until the first guy gets to ask me 300 questions." I mean, that's what these applications are doing to our examiners. They are requiring them to spend an inordinate amount of time on one file with claims that are being rejected sometimes by the tens, sometimes by the hundreds, sometimes by the thousands.

Now, we also think—I'm not saying that the filers are the villains here either, because from their perspective, if it's not costing that much more, and because of court decisions, you've learned behaviorally to just cast your net as wide as possible and throw everything against the wall and see what sticks. Were I advising them, perhaps from a legal standpoint that might be the way I would want to approach it, too.

What we are also trying to build into the system is giving them the opportunity to get that international search report first, to get a certified search report first, to look at that search report, and have a much better idea of what may or may not be patentable.

Mr. BERMAN. Well, that has a certain appeal to me. Do some due diligence before you file the patent, I guess is what you're saying there, really.

But is this new structure designed to sort out the nonmeritorious from the meritorious claims?

Judge ROGAN. Well, to the extent that somebody doesn't want to pay fees and, in some cases, exorbitant fees—as I said in my open-

ing remarks, we're not suggesting this fee structure, particularly on the punitive side—I've conceded they're punitive. But we're not suggesting it because we want the revenue. We're suggesting it because we want it to stop, because it shuts down our system.

We cannot continue—the system was not designed to handle that type of application. And then back that up with thousands more of them.

Mr. BERMAN. Thank you.

Mr. COBLE. I thank the gentleman.

The Chair recognizes the other distinguished gentleman from California.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Baker, I picked up on something you said earlier, which I think is very noteworthy, when you talked about perhaps shifting a portion of this rather large increase to the maintenance portion. Do you want to expand on that, because I think particularly if the Administration is going to take part of the dollars, it has a particular appeal to those of us who look at those as a commerce event and potentially taxable, versus the right of the inventor? If you want to expand on that?

Mr. BAKER. Surely. We feel that it's often easier to decide, from the client's point of view, the patent owner's point of view, the investor's point of view—the value of the patent is more clearly known after it's issued, after you're on the market with your product, after you know what it covers, after you know what business it's protecting.

Therefore, to pay \$1,000 maintenance fee or to pay a \$2,000 fee is not a big deal because you're probably making many more thousands than that.

On the other hand, a filing fee, it's an infant; you don't know what it's going to grow into, what the business is going to grow into. And so, to put the fees up there discourages the filing. And looking at it from the public's point of view, you'd rather have more things filed and more things publicly disclosed.

So we would rather put the pain toward the end than toward the beginning. That's assuming no diversion. Or, if we have to put up with diversion, the answer is still the same.

Mr. ISSA. Thank you, Mr. Baker.

Secretary Rogan, if you could do me the great favor, because I don't know that it can easily get the figure, if you could give us the breakdown of revenues from maintenance fees, both trademarks separately from patents, so that perhaps we could make an educated decision. If this Committee were to make the bold presumption that maintenance fees were less constitutionally protected than the right of the inventor, to perhaps find a justification for some portion of diversion, but link it to that revenue source rather than the whole enchilada.

Judge ROGAN. If I can answer your question—

Mr. ISSA. Yes, thank you.

Judge ROGAN. If I can answer your question, I think maintenance fees run about half of all PTO revenues. And in the plan, what we're suggesting is, the farther out the patent goes, the higher the fee. If maintenance fees were to be abolished, and if it's half the revenues, and if we're going to run the office—I mean, if people

are complaining about filing fees now, you would end up with a situation where independent inventors, people in the garage were having to double or triple—

Mr. ISSA. Actually, Jim, we're doing the opposite. What I'm suggesting is that maintenance fees be the source of revenue that is extracted for the Government's overhead and that, if anything, that maintenance fees from companies who have obviously made a profit on their invention, and they're getting a return, help subsidize the small inventor and those costs of evaluating four or more claims, because it does seem to be legitimate to say, "You're benefiting from your patent. Perhaps you can, in the process internally, give back to making sure the cost of a patent is lower for those who don't know yet whether they're going to make a profit."

Judge ROGAN. That's what we've recommended. That's what we have and what we recommended.

Mr. ISSA. Okay. And I think that's what Mr. Baker was implying. Perhaps we could do even more in dealing with your fee structure.

And I'm certainly not opposed to your point that when you look at 5,100 claims—it is only possible because of the nature of word processors and computers and laser printers. It would not have been done in earlier times, in order to get a fair and just patent.

Judge ROGAN. The airplane patent from the Wright brothers I think had a total of about 15, and Edison's light bulb was two or three.

Mr. ISSA. Of course, the Wright brothers has a lot of improvement to do, so they figured they would just move on quickly. [Laughter.]

Mr. ISSA. The other area of my greatest concern—I think we've beat money to death here. But I am more concerned than anything else—I believe that novelty searches or searches for prior art should be done by every inventor, and that a responsible attorney would recommend that highly, because sometimes \$10,000 or \$2,000 or, these days, some searches that can be done almost for free, will tell you how little inventive genius there really is in your great invention. And that would be wonderful for all of us.

But I'm concerned at the proposal, which would outsource this. And I might ask the question somewhat rhetorically, Jim, if I could, but maybe not. Isn't this a business that instead of outsourcing, the Patent and Trademark Office should offer more as a service?

In other words, you need to have expertise in-house. You need to have people that know about the prior art, if anything, instead of saying we're going to get rid of the search and then ask people who don't do searches to take somebody else's search, which may or may not be thorough, and say we're going to grant these claims.

Isn't, in a sense, being the devil's advocate, that the opposite of what we want to do? We really want to say, "We'll charge for you for searches." The Patent and Trademark Office, whether they use a sub or do it in-house, they're the most efficient place to do it, and retain the expertise, but strongly suggest some mechanism for, if you will, novelty searches to be done so that people can hone their patents.

That type of proposal would retain in your offices the expertise you have today, which is people who really understand a particular, relatively small part of the patent world or of technology.

You know, I've been up to your offices. I've met with examiners personally on some of my patents in the past. These folks are amazing in knowing so much about such a small area. You know, just in car alarms, you have multiple people who understand the auto and home security business. That could be lost if you give up so much of the background searching.

Judge ROGAN. Well, if I thought it was going to be lost, we wouldn't be recommending competitive sourcing of the searching. Sitting in front of a modern computer terminal and watching images flash on the screen in front of an examiner isn't what is going to teach them the prior art. What teaches them the prior art is reading and studying the application, the claims disclosures, looking at and being able to review all of those.

In essence, we're already certifying searchers. We hire people. We train them. When we think that they are qualified to do the job, we informally certify them by letting them do the job.

We're talking about giving other people the opportunity to obtain the same degree of certification. Foreign offices, like Japan and Europe, we already know they're qualified searchers. In Europe for 20 years examiners demonstrated that they could be versed in the prior art, learn the prior art by reading search reports, by reading in the claim applications, because they didn't do the searches themselves.

There are a lot of former, retired examiners that would love to be able to do what they did at the PTO only get paid a private sector salary rather than a public sector salary.

Mr. ISSA. And I appreciate that. But I still go back to the same point, which is, your agency has an absolute belief and obligation that they need to do a thorough search. They need to find the prior art.

It sounds terrible, but I think the practical reality is that a less than best search allows you to get the patent if you just want the patent. And there is a natural adversary relationship that should exist, which is the inventor wants the patent and the patent office wants to give them the minimum that they're entitled to. You're going to lose a little of that expertise to provide the minimum if, as you said, they stop looking at the flashing screens and they only look at the search report that I went out and shopped for the search report that would be most favorable to my getting a patent, not the most favorable to may getting a narrow patent.

And that's where I see the conflict. Do we get the most narrow patent, which is in the court's best interests? And we have obligation to not let the courts get swamped with patents that are not as well researched and limited, versus, yes, we outsource that and a lot of private sector people are very happy, but we might be granting quicker, less valid patents.

And I'm concerned, as you know, that the vast majority of your patents—let me rephrase that—the majority of your patents, when taken to Federal Court, do not prevail intact. That's already a situation. I'd like to make it to where they prevail at least the majority of the time intact.

We give a presumption—I know I’m overstepping—but we give a presumption of validity, and yet, when we actually go to court, and we actually test them, the presumption doesn’t end up being that good.

I’m of the opinion that, if anything, we need to make our patents, even if it costs more money, more rigorous at your level, because it saves millions of dollars by plaintiffs and defendants later if these patents ultimately are overturned or reduced in their scope.

Judge ROGAN. Mr. Chairman, does time allow me to respond?

Mr. COBLE. Let me—

Mr. ISSA. I’m done asking.

Mr. COBLE. The gentleman’s time has expired. I will let you respond, Mr. Rogan.

Until the gentleman from California mentioned this, this is a salient plank in the strategic plan platform, the outsourcing issue, and it had not been mentioned until the gentleman discussed it. I was going to conclude by inserting my oars into these outsourcing waters.

Now, many people, when they hear the term outsourcing, “Oh my gosh, we’re going to compromise quality.” Well, that may or may not be the case.

But let me hear from the other three, and then I’ll come back to you, Jim. And then we’ll conclude.

Ms. Barrett Park?

Ms. BARRETT PARK. Thank you, Congressman. I’ll address the outsourcing of course from the trademark perspective only.

We have numerous concerns about this, and I’m glad to give you something in writing, but I will hit a couple of the main concerns now, since time is short.

First of all, we think that this is not likely to really provide a cost saving to the applicant. In the four tiered fee structure set up, this would be the least expensive way to proceed, the most expeditious. However, I’m sure that whatever the savings in PTO fees—I think it’s a \$50 differential—we will more than match this savings by the certified search service fee. And as a practical matter, we don’t think many applicants will use it.

We’re also concerned that courts are very deferential in litigation to the thorough vetting of an impartial, professional examiner in granting a trademark application to registration. We think that if there is this sense that people can go out and work with essentially a business to get a search that serves their results, that it will undermine the validity of the trademark application.

And so there’s clearly room for trademark owners to establish relationships with someone who wants that trademark owner to be their customer in providing these searches.

We also question whether the search will ultimately result in true productivity for the PTO. The examining attorney is still going to have to look at the search, re-work may be necessitated if they feel the search isn’t indeed thorough enough. And we predict, if this goes into effect, there will be many more challenges to trademark registrations, both in the opening stage and, potentially, in the cancellation stage.

Mr. COBLE. Mr. Kirk?

Mr. KIRK. Mr. Chairman, we have to address the proposal by the PTO in the world in which we find ourselves. The PTO has been told by the appropriators that they have to come up with bold, imaginative new ways of doing business. The proposal is to outsource searches as one way of offloading some of the work, so that the examiners can focus on the core issue of examination.

This is not the most efficient way to proceed. The European Patent Office, which has been doing this since its inception, is moving in exactly the opposite direction. They are consolidating search and examination rather than having it separate.

As Ms. Park said, it's inefficient because now two people have to read and understand the invention. They have to understand everything in it. The search may not be adequate to the needs of the examiner. The examiner will have to go back and do some more.

So it's not an optimal solution, let's put that out first. However, trying to deal with the situation that we have, to accommodate the needs and the demands placed on the Office by the appropriators, we think it is possible for the Office to outsource certain aspects of its work.

For example, using the search results obtained under the Patent Cooperation Treaty from quality examining offices, like the European office, that search can be utilized by the examiner, not totally, not exclusively, but as an effective starting point to get some efficiencies and to make some gains.

But we shouldn't kid ourselves; this is a second best solution, but one that's foisted on us. Thank you.

Mr. COBLE. Mr. Baker?

Mr. BAKER. I won't repeat the things which these two people have said already very well. Let me just make a couple of distinctions.

One is between private search firms and between searches of foreign governments. Some of the issues go away when you're talking about foreign governments, because they are government employees. You get away from what I would call the Andersen-Enron factor of having a private organization do monitoring for the public good. Maybe it's a stretch, but I think there's that issue there, notwithstanding whatever certification processes the patent office might go through.

So I think, with respect to foreign searches, our statement draws a distinction. But with respect to private searches, we're quite strong on it, that we think this will affect the presumption of validity and the confidence investors have in patents before they invest. And so that we feel strongly about.

One more comment, Mr. Issa make statements about court statistics and about validity. And I think that we should be cautious about generalizing from those. A patent which is in litigation has already sort of got something wrong with it or somebody has looked at it.

I consider looking at patents in litigation and generalizing on the whole population of patents like looking at a hospital and generalizing that the whole population is 50 percent sick. [Laughter.]

Mr. BAKER. A patent litigation is like a person in a hospital.

Just, you know, all your consideration of this, I would flatter Judge Rogan and his office. They're doing a much better job than 50 percent. Thank you.

Mr. ISSA. And so noted, Mr. Chairman. I'm only asking that we do our best to increase the validity of those which are challenged. I fully expect that, as you say, only those that are suspect or disproportionately those that are suspect end up in court.

Mr. COBLE. The customary cast of characters, in other words, to coin a phrase of a well-known movie.

Jim, you've been holding a thought. You may release it.

Judge ROGAN. Mr. Chairman, thank you.

First, if I may, I really do want to thank all of the panelists, because all of them have been very generous with their time, their organizations, and others who are in the audience not represented here at the table. We have made them work nights and weekends with us, innumerable meetings, countless hours. We really do appreciate all of their input and their help in trying to craft this.

I didn't expect to have unanimity. I couldn't get unanimity from my District when I was on the ballot. I certainly didn't expect to get it from private industry back here in the patent world.

I just want to conclude on this issue, and of course taking any questions if there are any, on a couple of points.

Number one, we intend to establish the most rigorous standards possible to ensure that any entity doing a search is qualified to do it, not only qualified to present it under international search report standards, but qualified to do it to the satisfaction that the United States Patent and Trademark Office, which views itself on the front line of protecting American intellectual property, can meet our standards, which are even higher.

If a foreign government, such as Japan or Europe or any other country, wishes to be considered through a bilateral agreement, they will have to meet those standards. If a private industry thinks they can meet those standards, we would at least like to give them the opportunity to do so. It may well be, Mr. Chairman, that no private industry is capable of meeting that standard. But if they are, doesn't it make sense to give applicants the choice to go that route, particularly by increasing competition and making qualified search authorities, whether private or public, compete for those dollars?

Finally, I just want to say that Mike Kirk is right; it is not the optimum solution. In a perfect world, our examiners would also do the searches. That being the case, why segregate them? Because we anticipate that by removing the search function from our examiners, and letting them focus on the core function, making that quasi-judicial determination of patentability or no patentability, we can free up about 20 to 25 percent of our examiners' time.

And Congress has told us: Don't come to us anymore and just tell us to give you more money to hire more examiners.

I read you the Senate report language. I read you the House report language. You are more familiar, Mr. Chairman, than anybody else in Congress with the complaint.

So on the one hand, we're being told, "we're not going to give you the money to hire more examiners." There aren't many other options. If not the search, what else do we competitively source?

There isn't—would you rather see the examination? Would you rather see the determination of patentability? The answer clearly from everybody is no.

So we're hamstrung on this, Mr. Chairman. If we don't have the opportunity and the ability to outsource the one area where we know from experience and from world commerce that we can have a degree of trust in those searches—and still give our examiners the right to review those searches, make a determination if those searches have any kind of faulty strategy behind them. If they do, talk to their supervisor. Do a supplemental search. We don't want them rubberstamping bad searches.

But if we don't have the opportunity to do it in this fashion, we don't have the opportunity to free that period up and move those resources toward quality and pendency.

Mr. COBLE. My red light now appears.

Let me conclude by saying this: Jim, thank you and your people at PTO, and convey our thanks to them for what they do.

These three witnesses, they represent agencies and people who contribute very significantly to the well-being of the economy of this country. I didn't fully appreciate what the intellectual property community contributes to our economic well-being until I assumed the chairmanship of this Subcommittee.

I thank you very much for what you all have done today. This has been a meaningful hearing.

I thank those in the audience who hung with us as well. I did see many people nodding as we were going along, so apparently you all were interested in this.

We thank you very much for your contribution.

This concludes the oversight hearing on the U.S. Patent and Trademark Office fee schedule adjustment and agency reform.

Now, I repeat, the record will remain open for 1 week. If anyone wants to submit anything, any information regarding this issue, it will be embraced very warmly and very enthusiastically.

[The information referred to follows:]



International Trademark Association

1133 Avenue of the Americas, New York, NY 10036-6710 USA
Telephone: 212-768-9887 Fax: 212-768-7796

July 22, 2002

The Honorable Howard Coble, Chairman
Subcommittee on Courts, the Internet
and Intellectual Property
Committee on the Judiciary
United States House of Representatives
B-351A Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Coble:

Thank you once again for the opportunity to testify at the July 18 hearing on PTO fee schedule adjustments and agency reform. During the hearing, you asked each of the witnesses to offer their opinion on the PTO's proposal to use certified search services (CSS). My response provided some of the concerns that trademark owners have regarding the submission of searches by a CSS. At this time, I am pleased to provide the subcommittee with a more complete list of concerns. I respectfully request that this list be made part of the record.

Sincerely,

Kathryn Barrett Park
Executive Vice President

cc: The Honorable Howard Berman, Ranking Member



International Trademark Association

1133 Avenue of the Americas, New York, NY 10036-6710 USA
 Telephone: 212-768-9887 Fax: 212-768-7796

Certified Search Service for Trademarks

INTA continues to study the strategic plan, but has some immediate concerns over the proposal to create a four-tier system in which the first tier of applications would have lower filing fees and expedited examination depending, in part, on the applicant submitting searches by a certified search service ("CSS"). While a tiered fee approach may well provide needed incentives to encourage greater use of e-filing, this specific approach is flawed. There are six objections that INTA would like to briefly raise concerning the plan to create a first tier that requires a certified search. The first four concern the practicalities of the proposal; the last two address significant concerns that transcend these practicalities.

(1) There would be no real cost saving to the applicant – the proposed \$50 savings will more than likely be exceeded by the cost of acquiring a certified search. So, as a practical matter, it is unlikely the first tier will gain any currency among the PTO's customers.

(2) The proposed cut-off at 300 prior references is artificial. Depending on the mark at hand, such as a logo with multiple elements, or a multi-word slogan, there may well be more than 300 pertinent references to establish a mark's availability.

(3) There is clearly room for trademark owners, who develop commercial relationships with CSS firms, to consult on searching strategy, affecting the objective value of the search results. This provides ripe opportunity for "gaming" the system.

(4) We question whether the search will ultimately result in true productivity for the PTO. An examining attorney must still independently evaluate the search; re-work may be necessitated if the examiner is uncomfortable with the strategy. Moreover, we predict more challenges to opposition and cancellation proceedings based on the purported inadequacy of the search.

(5) Courts are deferential to the thorough vetting of an application by an impartial and professional PTO examiner; a registration that issues where the examiner has not conducted a thorough search or where "gaming" is a possibility is likely to jeopardize or undermine the inherent value of a registered trademark.

(6) Additionally, the requirement of submitting a search sets a dangerous precedent – trademark offices around the world look to the PTO as the gold standard of trademark practice. It is an alarming possibility that other countries would follow suit, perhaps without adopting a tiered approach, making it highly likely that the cost to trademark owners' to achieve multinational protection for their marks would become prohibitive.

Mr. COBLE. Thank you again for your attendance. The Subcommittee stands adjourned.
[Whereupon, at 11:57 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

Congressman Lamar Smith
Subcommittee on Courts, the Internet, and Intellectual Property
Hearing Statement
July 18, 2002

Mr. Chairman, thank you for holding a hearing on the Patent and Trademark Office. I have long had a strong interest in the PTO and the issues surrounding its operation. I am specifically concerned with the PTO's operations – particularly patent pendency, the proposed fee structure, and fee diversions.

In fact, I have asked the Government Accounting Office (GAO) to issue a study on these very issues. I look forward to seeing preliminary results within the next few weeks.

In the meantime, I am very concerned about the strategic plan issued by the PTO, specifically regarding the PTO's fee structure.

I do appreciate that under their proposed legislation, filing fees would be lower. However, other fees will increase to compensate for the expected decrease in patent applications and the patent fee surcharge that will be eliminated in 2003.

In addition, I have significant concerns about the effect of the fee increase on small businesses, especially small high-tech businesses like those found in my district.

The proposal adds new examination fees and provides that the fifty percent small entity discount will not apply to examination fees. This is problematic because "small entity" is the standard definition for small business.

In addition, the combined filing, examination, and issue fees would be higher under the proposal, which also authorizes the PTO Director to issue surcharges in certain instances.

I look forward to hearing from the witnesses about how we can address these issues and reassure our small businesses and high tech sector, which make up the backbone of our nation's economy.

PREPARED STATEMENT OF THE HONORABLE JOHN CONYERS, JR., A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MICHIGAN

It is nice to have PTO Director Jim Rogan, a former member of this Committee, back again. He was appointed to a position that would bring anyone's legal, management, and political skills to task, namely because of the various issues facing the PTO.

This user-funded agency is plagued with a diversion of its fees (\$162 million this coming year), a 400,000 patent application backlog, and patents being granted on inventions that would not have received such protection if they were subjected to more rigorous examination. Under Director Rogan's stewardship, the PTO has done a commendable job of facing these issues head-on and coming up with a proposal it believes could resolve them once and for all.

At the same time, I do have concerns with how the PTO proposes to fix the problems. For instance, the PTO wants to raise patent and trademark fees, even doubling patent filing and examination services from \$740 to \$1550. The impact of this high increase is magnified by some of the PTO's other proposals.

First, the impact of the increases is multiplied by the fact that the PTO does not address the fee diversion issue. In the past, the PTO—with the help of this Committee—has addressed fee diversion by trying to end the practice. Now, unfortunately, the PTO wants to take diversion as a given and factor into new fee amounts.

I understand that our efforts to stop diversion have been unsuccessful, but the agency is trying to solve its budgetary problems by making its customers pay more. Not only does this ignore the rights of the customers, but it also gives the diversion the imprimatur of the PTO, making unlikely the diversion will ever cease.

Second, the PTO plans to combine the fee increase with a proposal to perform less work in-house; more specifically, the PTO wants to outsource its patent search responsibilities. It seems to me that conducting thorough searches is an integral part of the PTO's examination role; we would be outsourcing how the PTO obtains some of information it relies upon when examining patents. At the same time, I am not certain how we would ensure that every search on every application was thoroughly done by the contractors.

Finally, the PTO would like to impose a reduction-in-force on its trademark side, and I am worried about the impact that such a reduction would have not only on the workers but also on the people and companies that rely upon the PTO's trademark examinations.

These are just some of the issues I hope we can consider as we move forward.

July 24, 2002

Honorable Howard Coble
Chairman
Judiciary Subcommittee on Courts, the Internet and Intellectual Property
13-351A Rayburn HOB
Washington, D.C. 20515

[To be submitted for the record for the oversight hearing entitled "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform." held July 18, 2002]

Dear Chairman Coble:

My name is Doug Mennie and I am president of Cummins-Allison Corp., a small manufacturing firm in Mount Prospect, Illinois; approximately three miles northwest of Chicago.

There are current proposals pending regarding increased patent fees and changes to the patent structure that was introduced in June by the office of Management and Budget. The Patent and Trademark Office proposal as detailed at the July 18th hearing before your subcommittee would dramatically increase the application fees and the maintenance fees for patents in the United States.

Cummins-Allison is a manufacturer of high speed U.S. coin and currency equipment that is sold to financial institutions around the country. Over the past 20 years, U.S. industry for this type of equipment has been decimated by the influx of low cost foreign imports to the point where Cummins-Allison is the only U.S.-owned manufacturer of coin and currency equipment left in the United States. In order to survive in this extremely competitive business environment, Cummins adopted a strategy to develop technology that can be protected with comprehensive patents. This strategy protects us from those foreign competitors that would copy our technology and have it produced in a country where the cost to manufacture is a fraction of what it is in the United States.

So far our strategy has allowed us to survive, but our survival is based on our ability to innovate and obtain comprehensive U.S. patents. The legislation being introduced threatens our future. It would more than double fees for a basic application and beyond that, it would increase claim fees for patents with large numbers of claims to a point that would simply make them prohibitively costly to small companies such as Cummins-Allison.

The increase in claims fees is particularly damaging in light of the most recent court rulings that have emphasized the point that patent holders need to have a large number of well-written claims if they wish to enforce their patents.

It may be instructive to give you a look at hard numbers from a small business such as ours. Over the past 10 quarters Cummins-Allison applications contained an average of 59 claims with 7 independent claims, and an average of 23 maintenance fees paid per year. The following chart shows the fees we paid, and the fees we would pay under the PTO proposal.

	Actual Fees Paid	Fees Under PTO Proposal
2000	\$43,858	\$17,759,837
2001	\$28,150	\$7,229,685
2002 (First Two Quarters)	\$32,132	\$13,304,378

If this proposal with these unprecedented fee increases is allowed to go into effect, it would seriously undermine the one thing that we depend on for our very survival; that is to obtain comprehensive patents that allow us to protect our investment in technology and give us the incentive to innovate today for products we will sell tomorrow.

I implore you not to take away the one thing that we have that rewards innovation and protects the 600 U.S. jobs that Cummins provides: a patent system that is affordable and available to all of us who innovate.

Sincerely,

Douglas L. Mennie
President
Cummins-Allison Corp.

cc: Congressman Mark Steven Kirk
Congressman Phil Crane
Congressman Henry Hyde

Patent Office
Professional
Association

Post Office Box 2745, Arlington, Virginia 22202

July 24, 2002

Honorable Howard Coble, Chair
House Subcommittee on Courts, the Internet
And Intellectual Property
B351A Rayburn House Office Bldg.
Washington, D.C. 20515

Honorable Howard L. Berman, Ranking Member
House Subcommittee on Courts, the Internet
And Intellectual Property
B336 Rayburn House Office Bldg.
Washington, D.C. 20515

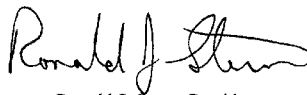
Dear Sirs,

On July 18, 2002, The Subcommittee on Courts, the Internet and Intellectual Property held a hearing on "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform." On behalf of the Patent Office Professional Association (POPA), I am submitting the attached statement and respectfully request that it be made part of the hearing record.

Included as appendices to the statement are a petition signed by over 1,000 patent examiners requesting Congress to ensure that the prior art search remain part of examination, and the results of a survey of our membership on the feasibility of the Agency's new Strategic Plan.

Thank you.

Sincerely,



Ronald J. Stern, President
Patent Office Professional Association
(703) 308-0818

Professional Representation for Patent Professionals

PREPARED STATEMENT OF RONALD J. STERN

Mr. Chairman and Members of the Subcommittee:

POPA represents the more than 3,400 patent examiners, classifiers and other patent professionals who form the backbone of the U.S. Patent and Trademark Office (USPTO). Patent examiners comprise the vast majority of our membership. The patent professionals of POPA are diligent, hard-working individuals firmly committed to maintaining the quality and integrity of the U.S. Patent System.

Today, however, the patent professionals of POPA believe that the very foundations of the U.S. Patent System are in danger of being so substantially and negatively altered by the USPTO 21st Century Strategic Plan, that the integrity of the patent system may be seriously and irreversibly damaged.

For the many reasons set forth below, *POPA opposes the proposed USPTO fee structure and proposed Agency reforms.*

BACKGROUND

In H.R. 2047, as passed by the House, the Director of the USPTO was going to be required to develop a five-year strategic plan to: (1) enhance patent and trademark quality; (2) reduce patent and trademark pendency; and (3) develop and implement an effective electronic system for use by the Office and the public for all aspects of the patent and trademark processes. In his testimony before this subcommittee on April 11, 2002, USPTO Director James E. Rogan indicated that he had "begun an aggressive review of the USPTO to identify new and possibly non-traditional ways to improve quality and reduce pendency." Director Rogan released a summary of that review on June 3, 2002 entitled the "21st Century Strategic Plan." Just recently, on July 5, 2002, a significantly more detailed version of the Strategic Plan was made available on the USPTO web site (www.uspto.gov). This plan does not achieve the goals set forth in H.R. 2047.

Director Rogan, in his Message accompanying the 21st Century Strategic Plan, stated "[D]eveloping the strategic plan was an open and participative process." This has not happened. While POPA represents all the patent examiners at the USPTO, not once has POPA been approached by Director Rogan or the strategic plan working group to provide input into development of the strategic plan. Nor, to our knowledge, were any working examiners consulted. We believe that developing such a far-reaching and unconventional strategic plan without any input from examiners, the very individuals who are most familiar with—and essential to—the examination process, is shortsighted and ill-advised. Further, in conversations with many USPTO managers and supervisors, POPA has become aware that the vast majority of them have not been consulted either.

True to his word, Director Rogan's Strategic Plan certainly proposes some "non-traditional" initiatives. The 21st Century Strategic Plan calls for separating the prior art search and examination, accepting searches from foreign patent offices in place of a thorough search by USPTO examiners, increasing training and review of examiners' work, recertification of primary examiners and patent attorneys, and dramatically changing the fee structure of the USPTO resulting in significantly higher costs to inventors to file patent applications. POPA believes the Strategic Plan will neither increase quality nor reduce pendency of patent applications.

THE NEW FEE LEGISLATION AND USPTO REFORM

POPA opposes the new fee structure on several grounds. The new USPTO fee structure contemplates sweeping changes in the patent examination process that POPA believes will significantly and adversely affect the U.S. Patent System. Approval of the proposed USPTO fee legislation will be construed by the Agency as approval by Congress to implement the 21st Century Strategic Plan. These changes are reflected in the proposed new USPTO fee structure in the form of separate fees for filing and examination and by allowing the Director, by regulation, to reduce fees for applicants who provide an appropriate search report. The proposed fee structure would permit continued diversion of USPTO fee income and make such diversions an essentially permanent part of the appropriations process. The proposed fee structure would also dramatically increase the cost of obtaining a patent by charging significantly increased fees and surcharges for additional claims and pages of a patent application and for filing related patent applications while placing additional burdens on applicants to pay for prior art searches elsewhere.

Separation of Search and Examination

Separating the prior art search from patent examination will result in a loss of integrity and efficiency of the U.S. Patent System, reduce the quality of patent ex-

amination and, for some applications, is tantamount to surrendering the sovereign functions of the United States to foreign powers.

Examiners have raised their collective voice in opposition. Over 1,000 patent examiners have signed a petition requesting Congress to keep the search and examination together. A copy of this petition is submitted herewith as Appendix 1. Examiners recognize that separating the search and examination would adversely impact the quality of patent examination and be a disservice to the American people.

The prior art search and the patent examination are integral parts of the same process. There is a synergy between the two functions that will be lost if search and examination are separated. As a patent examiner performs a prior art search on a patent application, the examiner is simultaneously becoming familiar with the state of the art in the subject matter of the application, identifying additional relevant search terms, modifying the search in response to preceding search results, and mentally formulating rejections to apply to the claimed invention. Thus, when the examiner prepares to take action on the case, much of the decision making process has already been completed.

Furthermore, as an examiner continues to search in a particular technology area, the examiner becomes more and more familiar with the prior art in that technology, increasing the quality of the examiner's search and examination. Many examiners gain such a level of expertise that they are regarded as experts in their technologies both within and outside the USPTO. The USPTO represents the single largest accumulation of technological expertise in the federal government. Where else can one find a single collection of engineers and scientists with the collective expertise to examine anything from safety pins to atom bombs; from fishing lures to genetically engineered plants and animals? This is the inherent efficiency of the combined search and examination process. The expertise of examiners will be diminished rather than enhanced by separating the search from examination. This will reduce the quality of examination.

The European Patent Office (EPO) has recognized this inherent efficiency. After many years of experience with a separated search and examination process, the EPO has begun implementing the "BEST" program—*Bringing Examination and Search Together*. The BEST program places the responsibility for the search and examination with the same examiner in the same manner as current USPTO practice. In his statement before this Subcommittee, Charles P. Baker, Chair of the Section of Intellectual Property Law of the American Bar Association (ABA), indicated that the "best testament against separating the search function and an examination function is the fact the European Patent Office, which has had such a system for years, has recently decided to abandon it." POPA agrees with Mr. Baker. Now, irrespective of the years of experience of the EPO culminating in the BEST program, the USPTO wants to take the opposite approach and separate the search from the examination.

In his statement before this Subcommittee, Michael K. Kirk, Executive Director of the American Intellectual Property Law Association (AIPLA), expresses the concerns of AIPLA that "the presumption of validity could be adversely affected if the PTO simply hands off the responsibility for obtaining the search to applicants and CSSs [Certified Search Services]." POPA shares AIPLA's concern.

Patent applicants want patent rights for themselves. Evidence of prior, very similar inventions uncovered during the search stands in their way. Letting them choose who finds—or does not find—the prior art evidence to be used against their application, and how much the searcher gets paid, pits the searcher's efforts against the applicant's interests. It is the equivalent of letting the fox guard the henhouse.

To ease AIPLA's concerns, Mr. Kirk states "[T]he PTO must ultimately be responsible for ensuring that the searches it relies upon are the highest quality, whether done by its examiners, CSSs, or qualified foreign patent offices." Mr. Kirk expresses particular concerns with CSS searches stating "PTO examiners should always assess whether the search was complete and, if not, demand that the CSS research the application and 'get it right.'" Finally, Mr. Kirk states "the ultimate responsibility in each individual case must rest with the PTO examiner, to ensure that the search is complete in the first instance and to conduct supplemental searches as appropriate as the claims in the application are modified as the application advances through the examination process."

The USPTO, however, does not intend to maintain its present search capabilities. The Strategic Plan contemplates recouping significant overhead expenses by "putting the prior art search in the hands of private industry" and realizing "substantial savings in automation development and maintenance costs for EAST, WEST, ABSS, CDB access, etc.," in addition to substantial savings from reduced upkeep and maintenance of both the U.S. and International Patent Classification Systems. These various systems are the very search tools that examiners rely on for performing prior

art searches. If these tools are no longer available, patent examiners will not be able to ensure that prior art searches are complete and of the highest quality. Even worse, the 21st Century Plan contemplates reducing the amount of time available to an examiner for each case by 20–25% as stated by Director Rogan before this Subcommittee. Without the time and tools to do the work, the Agency has effectively precluded examiners from doing the work.

How can patent examiners determine if a search is “complete” without conducting searches themselves? How will examiners know if a CSS “got it right” without conducting searches themselves? How will examiners “conduct supplemental searches as appropriate” when the very search tools they use today are no longer available or properly maintained? How can patent examiners be held ultimately responsible in each case, when they are not provided with the necessary tools to perform their duties? The plain truth is: they cannot and the USPTO knows it. On the other hand, if patent examiners are themselves conducting searches to verify the completeness of outsourced searches or carrying out supplemental searches, then where is the efficiency of outsourcing the search and where are the substantial savings to the Agency to justify the outsourcing? This is the inefficiency of the Agency’s Strategic Plan. To ensure the integrity of the presumption of validity, patent examiners would be necessarily duplicating the work of the prior art search performed by others. Clearly, the more efficient method is to simply continue having patent examiners do the prior art search themselves. To maintain the integrity and the efficiency of patent examination at the USPTO, the search and examination should remain together under the control of the examiner.

*USPTO Reliance on Private Sector and/or Foreign Patent Office
Prior Art Searches Will Not Improve Quality of Examination*

The 21st Century Strategic Plan provides initiatives to substitute prior art searches from certified private sector certified search services (CSSs) or search reports from foreign patent offices for searches currently done by examiners. These initiatives are enabled in the proposed new fee structure by allowing the Director to reduce fees for applicants who provide a search report that meets conditions prescribed by the Director. These proposed initiatives will not improve the quality of patent examination at the USPTO.

Examiners already have the ability to rely on searches provided by applicants in the form of Information Disclosure Statements (IDS) and/or International Search Reports (ISR) provided by a foreign patent office. Examiners routinely review these documents when they are provided in a patent application. Indeed, if an examiner were to ignore relevant prior art in these documents, such an action could be construed by Agency management as an error against the examiner’s performance rating. Experience has shown, however, that the prior art provided in these documents is seldom sufficient for examination purposes.

POPA has recently surveyed its membership on the wisdom of separating search and examination, as well as the adequacy of prior art submissions from applicants and from foreign patent offices. The results of this survey are attached herewith as Appendix 2.

Ninety five percent (95%) of examiners do not believe they will be able to issue valid patents and protect the public from unwarranted patents without doing the search themselves. Ninety six percent (96%) believe that overall quality will go down if search and examination functions are separated.

When asked the following: “In new applications where an IDS (information disclosure statement) is filed, approximately how often do you need to apply additional references when making a rejection in the application,” ninety one percent (91%) indicated that they need to apply additional art “almost all the time” (74%) or “most of the time” (17%). Only two percent (2%) said they “almost never” need to apply additional art.

Similarly, when asked the following: “In new applications containing foreign search reports, approximately how often do you need to apply additional references when making a rejection in the application,” ninety two percent (92%) indicated that they need to apply additional art “almost all the time” (69%) or “most of the time” (23%). Only two percent (2%) said they “almost never” need to apply additional art. These last results clearly illustrate the fact that U.S. patent laws require analysis and application of prior art in patent applications in a significantly different manner than do foreign patent laws.

Examiners, those most familiar with the prior art and its application under U.S. patent laws, are convinced that separating search and examination functions and increasing reliance on private sector or foreign patent office searches will negatively impact the quality of patent examination in the USPTO.

The Search Is A Sovereign Function

Separating the search and examination will also result in tacitly transferring the sovereign functions of the United States to foreign powers. In his keynote address to the ABA, on June 27, 2002, Director Rogan indicated that the quasi-judicial determination of patentability is a sovereign function that he believed should never be contracted out. Naively, Director Rogan did not ascribe that same sovereignty to the prior art search. Contrary to Director Rogan's position, POPA believes that the search and examination both represent sovereign functions of the United States. If, as contemplated by the 21st Century Strategic Plan, examiners would have to rely on search results provided by a foreign patent office as the basis for patentability determination, the net effect is to delegate that patentability determination to the foreign patent office. The patentability determination can only be as good as the prior art on which that patentability determination is founded. If the search is provided by a foreign patent office, then any decision based on that search has ultimately been determined by that foreign patent office. Hence, the sovereign function of patentability determination has been indirectly delegated to a foreign power. POPA opposes such a delegation of sovereignty and opposes the proposed USPTO fee structure that would provide the Agency with the authority to make that delegation.

*Deferred Examination Is Contrary to the Public Interest
And Will Increase Application Pendency*

In conjunction with separate search and examination fees, the 21st Century Strategic Plan would allow patent applicants to defer examination up to eighteen months after filing a patent application. POPA opposes deferred examination because it is contrary to one of the underlying public interests of the U.S. Patent System, i.e., to ultimately place the knowledge and creations of inventors in the public domain, it will lengthen the period of uncertainty during which the public will not know what, if anything, is patentable, and it will further increase the total pendency of patent applications. Competitors of a patent applicant who want to invest in new facilities and processes, need to know if they are infringing any patents. These negative impacts on the public far outweigh any perceived benefit to the USPTO.

The 21st Century Strategic Plan touts that deferred examination would give patent applicants an opportunity to explore the economic viability of their inventions prior to having to pay the significant fees for examination. Current U.S. patent law already provides such a process in the form of a "provisional" patent application which provides a patent applicant 12 months to make the determination to go forward with patent prosecution. If the patent applicant determines that his/her application is worth pursuing, the patent applicant files a regular patent application for prosecution.

The proposed new fee structure sets the fee for a provisional application at \$160. Thus, with no further changes in the patent laws, no increase in pendency before the Agency, and no increased period of uncertainty of the public, a patent applicant can purchase 12 months of deferred examination for the nominal fee of \$160. POPA believes this existing process provides sufficient time for applicants to determine the economic viability of their inventions without placing undue burdens on the public.

The Strategic Plan asserts that allowing deferred examination will decrease pendency of patent applications. The Agency is merely redefining pendency of an application by starting the time period for pendency at the time of payment of the examination fee. The Agency's redefinition of pendency is deceptive. By redefining the starting point, the Agency has effectively discounted the increased period of uncertainty caused by the additional 18 months of deferred examination. Pendency, the total time of uncertainty experienced by the public, should be measured from the time of filing to the time of allowance or abandonment.

Fee Income Diversion

POPA continues to join its collective voice with all those who oppose the diversion of USPTO fee income to fund other unrelated non-USPTO appropriations. POPA believes that such fee diversions represent hidden and unfair taxes on America's inventors. If a governmental service or program is worthy of appropriation, it should be funded from appropriate taxes and general funds, not at the expense of inventors and innovators. POPA urges Congress to permit the USPTO the full use of its fee income in the year it is received.

POPA believes the new proposed fee structure is intended to provide additional revenues for the express purpose of funding non-USPTO activities. The President's FY 2003 budget proposal called for surcharges on patent and trademark fees to provide \$162 million in additional fees to be diverted for use in funding other govern-

ment programs. The new fee structure contemplates alternatives to the President's surcharges that would still produce income levels equivalent to the 2003 budget proposal so that an equivalent sum may be diverted.

Far more ominous is the fact that the proposed fee structure would actually codify a fee structure that contemplates continued fee diversion. POPA believes this would have the effect of making fee diversions a permanent part of the USPTO appropriations process. In the absence of specific guarantees that all USPTO fees will be used for USPTO activities, POPA believes the new USPTO fee structure represents a hidden tax on inventors and would set a statutory precedent for annual fee diversions for the foreseeable future.

Limitations on the number of application claims and pages

Although POPA opposes the new USPTO fee structure as presently written, some parts of the legislation merit further consideration. Of particular interest to examiners are the fees for additional claims and pages of the application above a threshold number. Examiners can attest to the huge increase in work required to examine patent applications as the number of claims increases. Generally, as the number of claims increases, so does the number of pages of the application. POPA is sympathetic to the Agency's desire to exercise some form of control over the size of applications and the numbers of claims so as to manage the amount of work that needs to be done in any one case. Notwithstanding that sympathy, POPA believes that the proposed fee structure is extreme and would unduly burden patent applicants.

POPA would welcome a more moderate fee structure in this regard if, and only if, the fees obtained were directly translated into additional time for examiners handling the burden of these more complex patent applications. This has not been the case in the past. The existing USPTO fee structure already requires additional fees for more than three independent and more than 20 total claims. These fees were imposed because it was recognized that additional claims place an additional burden on the examiner by requiring additional work. In his testimony before this Subcommittee, Director Rogan admitted that complex cases with numerous claims require examiners to spend "inordinate" amounts of time examining such cases. POPA agrees with Director Rogan on this point. Unfortunately, examiners have not been given the additional time which applicants purchased with the payment of these fees. In those very rare instances where a supervisor may provide some time for an exceptional application, the time virtually never approaches the time the examiner actually used.

In their respective statements to this Subcommittee, both the AIPLA and the ABA have expressed support for establishing fees that represent the actual costs to the Agency to provide necessary examination services. When an application contains a significant number of additional claims, has large information disclosure statements (often disclosing a hundred or more prior art references), or requires additional considerations such as review of related cases for double patenting, it is the examiner who bears that burden. Yet the Agency does not use the additional fees from that complex application to provide additional time to that examiner. The examiner only has a very limited amount of time for each application and cannot be expected to provide the same quality examination to a complex application without additional time.

Unless examiners are given the additional time commensurate with the Agency fees for additional examination services, both existing and proposed fees for additional claims and other services represent nothing more than another hidden tax on inventors rather than a payment for examination services rendered.

THE AGENCY'S PROPOSED QUALITY INITIATIVES

The 21st Century Strategic Plan proposes several initiatives ostensibly for improving patent examination quality at the USPTO. These initiatives include such proposals as re-certification of primary examiners, requiring passage of the Patent Bar Exam for promotion to GS-13, quadrupling the number of work product reviews for primary examiners, and expanding the "second pair of eyes" review. POPA believes these initiatives represent a burdensome imposition of managerial authority designed to increase control rather than enhance quality.

No amount of review and no amount of automation can ultimately improve patent examination without first providing examiners with the necessary time and resources to properly do the job. The current production quotas were put in place over twenty-five years ago and have become the largest single obstacle to quality patent examination. Since these quotas were put in place, the technological complexity of applications, the number of pages of description, the number of independent claims and the number of total claims in each application has increased substantially. In addition, there has been a veritable explosion of technology information. Further-

more, examiners have been required to provide more detailed explanations of the bases of their decisions. The old quotas no longer provide examiners with sufficient time to adequately search and examine current cases. Real increases in quality will require real increases in time per case.

Compounding the problems of production quotas is management's lack of support for adequate search tools to allow examiners to accurately and efficiently search the prior art. Management has, by neglect, effectively abandoned the U.S. Classification System. Fewer and fewer resources have been allocated for maintaining and updating the U.S. Classification System. Full time classifiers have been slowly phased out by attrition until finally, on July 11, 2002, management effectively abolished the job position and moved the remaining full time classifiers to hybrid classifier/examiner positions. U.S. classification of foreign patent documents ended in the mid-1990's, effectively removing this significant source of prior art from classified searches.

The automated patent databases have also been shortchanged. Management has repeatedly failed to allocate adequate resources to finish converting the patent image database to a fully text-searchable database. While patent images are available back to 1790, the text searchable database is only adequately usable back to 1971. Management recently made available an additional database using optical character recognition (OCR). The "dirty" OCR database is, however, of such poor quality as to render it almost useless for text searching with the Agency's current search engine. These are examples of failed management practices that have resulted in decreased quality of patent examination over time.

The Strategic Plan quality initiatives are designed to reduce or eliminate the freedom and independent judgment of patent professionals. Patent examiners operate in a quasi-judicial capacity when making patentability determinations. The proposed quality initiatives would place the examiners under more stringent control of management and subject them to political pressures from both management and applicants, and production goals that will ultimately result in a further erosion of examination quality. This is analogous to a federal judge being under executive branch management control when making judicial decisions. It is analogous to a medical doctor having to have a diagnosis and treatment regimen approved by an accountant. At the USPTO, many supervisors manage art areas in which they, themselves, have not been trained. Hence, patent examiners well-trained in their technology, are reviewed by a generalist supervisor.

In almost all professional positions, the professional is tested once and then expected to remain current in his profession through continuous formal and on-the-job training. Attorneys do not retake the bar exam every year or two. Doctors do not sit for their board certifications every year. Repeated testing is not the accepted way of maintaining professional standards in the private sector and neither should it be at the USPTO. POPA has always been a strong proponent of adequate and continuing training in both technology and patent laws. The patent professionals of POPA are hard-working, dedicated public servants and deserve the honor and respect of USPTO management. Rather than increasing the number of managers necessary to review one patent examiner, management should provide adequate opportunities for examiners to keep current with changes in patent laws and in their respective technologies. Adequate time and training, more than anything else, will directly result in significant improvements in patent examination quality.

CONCLUSION

POPA opposes the proposed new USPTO fee structure and the 21st Century Strategic Plan as presently written. We would welcome the opportunity to work together with the Subcommittee and the USPTO to develop a Strategic Plan and fee structure that would be acceptable to all parties concerned and meet the objectives of improving patent quality and decreasing patent application pendency. We will be happy to answer any questions regarding the comments we have submitted.

APPENDIX

POPA July 17, 2002 Survey Results

Do you believe examiners can issue valid patents and protect the public from unwarranted patents without doing the search themselves or having the search under their control?

- | | |
|------------------------------|-------|
| ☐ YES | 4.6% |
| ☐ NO | 95.4% |

Do you believe that if search and examination functions are separated, overall quality will go up or down?

- | | |
|---|-------|
| ☐ Quality will go up | 1.4% |
| ☐ Quality will go down | 95.8% |
| ☐ Quality will stay the same | 2.8% |

Do you think the responsibility for doing the search should be placed under the control of the applicant?

- | | |
|------------------------------|-------|
| ☐ YES | 3.7% |
| ☐ NO | 96.3% |

Do you believe that the private sector should be in charge of the classification schedule for the patent system?

- | | |
|------------------------------|-------|
| ☐ YES | 3.1% |
| ☐ NO | 96.9% |

In new applications where an IDS (information disclosure statement) is filed, approximately how often do you need to apply additional references when making a rejection in the application?

- | | |
|--|-------|
| ☐ almost all the time | 74.3% |
| ☐ most of the time | 16.5% |
| ☐ some of the time | 6.8% |
| ☐ almost never | 2.3% |

Do you trust management to objectively re-certify the competence of primary examiners?

- | | |
|------------------------------|-------|
| ☐ YES | 6.6% |
| ☐ NO | 93.4% |

In new applications containing foreign search reports, approximately how often do you need to apply additional references when making a rejection in the application?

- | | |
|--|-------|
| ☐ almost all the time | 69.0% |
| ☐ most of the time | 22.5% |
| ☐ some of the time | 6.8% |
| ☐ almost never | 1.7% |

James O. Thomas
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July 31, 2002

The Honorable Howard Coble
Chairman, Subcommittee on Courts, the Internet, and Intellectual Property Committee of
the Judiciary
U.S. House of Representatives
2468 Rayburn House Office Building
Washington, D.C. 20515-3306

Re: Statement on Proposed Fee Legislation for U.S. Patent and Trademark Office

Dear Mr. Chairman:

I respectfully submit the attached written statement for the record of the hearings before the Subcommittee on Courts, the Internet, and Intellectual Property on "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform" -- the recently proposed fee legislation for the Patent and Trademark Office (PTO) submitted by PTO Director Judge James Rogan.

Sincerely,

James O. Thomas

Attachment

STATEMENT OF
MR. JAMES O. THOMAS

FOR THE RECORD OF THE HEARINGS ON

"The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform"

BEFORE THE
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES

ON

JULY 18, 2002

INTRODUCTION

I am pleased to submit a written statement for the record of the hearings before the Subcommittee on Courts, the Internet, and Intellectual Property on "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform" -- the recently proposed fee legislation for the U.S. Patent and Trademark Office (PTO).

I was formerly the Deputy Assistant Commissioner for Patent Process Services for the United States Patent and Trademark Office. I am currently retired after over 40 years of government service, the majority of which was served with the PTO.

During my time at the PTO, I served as an Examiner, a Supervisor, a Director of a Chemical Examining Group, and finally Deputy Assistant Commissioner. My extensive service and experience in the PTO gives me a unique insight into the United States patent system as well as how proposed legislative changes can impact the patent system.

After having devoted so many years of my life to the United States patent system, I always remain interested in any legislation and rule making which may impact the preparation and prosecution of patent applications, especially any proposed changes which I feel may have a detrimental impact on the patent system.

RETROACTIVITY

I was pleased to learn of Judge Rogan's unequivocal statement during the subcommittee hearing clearly indicating that the proposed fee legislation was never intended to be retroactive, would not be retroactive to applications currently pending in the PTO, and that the issue of retroactivity would be corrected.

This is an important issue because there are hundreds of thousands of patent applications pending that were filed by patent applicants who did not know what kind of dramatic fee increases their patent applications would be subjected to at the time they filed their applications. If the proposed fee legislation were to be retroactive, these applicants would be penalized with surcharges for innocently following the statutes, regulations, policies, and procedures at the time of filing.

Thus, while Judge Rogan's unequivocal statement about non-retroactivity is reassuring, I highly recommend that the proposed fee legislation be amended to state explicitly that it applies only to applications filed after the effective date of the proposed legislation.

SURCHARGES

Another area of concern is the surcharges imposed by the fee legislation. I am dismayed by the PTO's attempt to infuse surcharges into the patent system for the purpose of behavior modification.

During my many years of service at the PTO, I have never known the PTO to take on a role of modification of behavior of applicants who follow the laws that Congress have provided for which allow any person to obtain a U.S. patent. Inventors should not be penalized for filing for patent applications in accordance with the laws written by Congress.

While I can respect the objective of making the PTO more efficient by modifying the behavior of patent applicants, it should not be done to the detriment of patent applicants who are merely applying for a patent in accordance with the law.

Therefore, I respectfully suggest that all of the proposed surcharges be removed from the proposed fee legislation.

THE DISCLOSURE SURCHARGES AND EXORBITANT PATENT CLAIM FEES THREATEN TO HINDER TECHNOLOGICAL GROWTH

As technology continues to explode, the United States remains in the forefront of technological advancements. And U.S. patents continue to play an essential role in providing American companies with an effective way to protect these technological advancements.

In recent years, courts have become more strict in their treatment of patents, which has compelled patent applicants to take certain measures in order to obtain sufficient patent protection. The PTO's proposed fee legislation now poses a significant threat to ability of American companies to obtain the patent protection that they rely upon in protecting their technologies. Recent court decisions regarding patents encourage patent applicants to file more detailed patent applications and to file more claims in order to provide sufficient patent protection. However, the PTO's proposed fee legislation seeks to penalize patent applicants who are merely attempting to follow court decisions.

The PTO is attempting to limit patent disclosures to 50 pages and to impose surcharges on reasonable patent disclosures exceeding this amount¹. However, court decisions are increasing the requirements for patent disclosures, which in turn necessitates an increased amount of patent disclosure on the part of patent applicants. For example, multiple alternate embodiments need to be disclosed in order to protect against a holding of patent invalidity due to an alleged missing essential element.² Furthermore, as technology

¹ See USPTO Fee Legislation, Section 2(a) -- proposed §41(a)(1)(G).

² *Gentry Gallery, Inc. v. Berkline Corp.*, 134 F.3d 1473 (Fed. Cir. 1998).

gets more and more complex, more and more details are needed to properly describe this complex technology in sufficient detail to obtain patent protection.

For example, an integrated circuit chip can have more than a million transistors and a system can have many integrated circuit chips, and computer programs have millions of computer instructions. Portable consumer systems (e.g., the Personal Digital Assistant (PDA)) are becoming more complex with powerful computers, GPS navigation, maps, radio frequency and infra-red data links, a built-in cellphone, internet access, a video camera, and much more -- all to be contained in a pocket sized portable module.

Therefore, the PTO should be tolerant of and not penalize larger disclosures that seek to describe such complex inventions. Indeed, greater details should be encouraged so that the patentee's knowledge can be shared with the public in order to further promote the progress of technology.

Similarly, the PTO is attempting to limit the number of patent claims by implementing an exponentially increasing patent claim fee for claims over prescribed minimums.³ Yet, at the same time, court decisions are encouraging patent applicants to increase the number of patent claims and the growing complexity of technology necessitates a large number of patent claims to provide sufficient patent protection.

The PTO's new patent claim fee schedule by going against both court decisions and the growing demands of technology, effectively serves to deprive patent applicants of the patent protection they need in an ever increasingly competitive technological world.

Court decisions continue to increase the requirements on patent claims. In the past, "means claims" were broad and often enough to provide sufficient patent protection; but now "means claims" are interpreted by the courts as being much narrower and thus are far from sufficient. Also, because of the complexity of the technology, patent attorneys often have to claim a new invention with a combination of different types of patent claims -- apparatus claims, process claims, means claims, data structure claims, and others. For example, the controversy between the Federal Circuit and the U.S. Supreme Court over the doctrine of equivalents⁴ encourages patent attorneys to have different sets of claims -- broader claims, narrower claims, claim sets that are to be later amended, and claim sets that are not to be amended⁵.

Because the PTO presently charges large fees for additional claims, any extra examination effort is adequately paid for by such fees and indeed should be profitable for the PTO. The proposed exponential fee scale increases the fees for additional claims to a level far beyond the cost of the additional examination effort and far beyond an inventor's ability to afford adequate claim coverage.

Given both the current state of the law and technology, the Patent Office should be tolerant of and not penalize larger numbers of claims in a patent application where patent

³ See USPTO Fee Legislation, Section 2(a) -- proposed §41(a)(2).

⁴ *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000), vacated and remanded by ___ U.S. ___, 122 S.Ct. 1831, 152 L. Ed. 2d 944 (May 28, 2002).

⁵ Under the Federal Circuit's now overturned *Festo* precedent, any claim that was amended for any reason could not embrace the doctrine of equivalents.

applicants are only doing what is necessary in this day and age to obtain sufficient patent protection.

In conclusion, court decisions and the explosive growth in technology necessitate larger patent disclosures and more patent claims in a patent application. The Patent Office should focus on providing the necessary services in order to satisfy its Constitutional mandate rather than invoking surcharges to limit patent disclosures and or imposing exorbitant fees for additional patent claims.

ALLIANCE FOR AMERICAN INNOVATION

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July 19, 2002

The Honorable Howard Coble
Chairman
Subcommittee on Courts,
Intellectual Property and the Internet
Committee on the Judiciary
B-351A RHOB
Washington, D.C. 20515

Dear Mr. Chairman:

The Alliance For American Innovation is an organization representing independent inventors and small business entities. They are the source of many of the start up companies which become the "gazelles" for which the American economy is well known.

Independent inventors have been a vital life force for the economy since the country was founded. They continue to be concerned with the radical changes in the patent system and particularly with the number of 82 initiatives the USPTO is now contemplating to change the system.

We are particularly concerned with the proposed punitive fees which increased costs for inventors so dramatically. The fees would divert \$162 million for the government and only \$45 million would be for the benefit of the PTO. This appears to be a tax on innovation and only aiding the government target for funds and not delivering better service or answering needs for the Patent Office. While the PTO is raising fees it is cutting the trademark attorney work force. Fees have been increasing over the years, but this big jump only serves to encourage further raises in fees in the future.

Patent attorneys have cited that it costs less to patent in the United States but now the fact the fees are less is cited as a reason to be able to raise them to be more comparable with other countries. Raising the fees has been cited as a way to cut the pendency rate to hire more examiners and outsource searches, but other parts of the plan advocated by the PTO which were not addressed in the hearing, do exactly the opposite. The Four-Track Process of examination with delayed examination will lead to other deficiencies.

Deferred examination is one way of contributing to redefining pendency. Other issues are outsourcing the search and removing it from the examiners. Questions exist in using foreign patent offices for searches. Such an action does not necessarily guarantee the art for a quality patent.

Instead it places the examiner in the position of having to guarantee someone else's work within the examiners own work and ultimately the patent. If the examiner is dissatisfied with the search he or she must ask the supervisor for time to perform additional searches. This very act can cause additional delay in waiting for approval and makes the supervisor responsible for the quality of the search. It would not be long before examiners would hesitate to request search time. This combined with the testing and certification of examiners would not contribute to a good morale and work environment.

It is unrealistic to believe that a searching entity will be as large as the USPTO. Similarly, it is unrealistic to believe that a searching entity would recruit people with the same or better level of professional training and/or experience in the large numbers that are in the USPTO. If cost is a factor with a government agency, why would it not be with a private organization? One way or another the inventors are paying the cost and do not have the assurance of the USPTO over quality with outsourced searches.

After having separate searches for twenty years the Europeans are going to the United States system because it is superior while America rushes to emulate the inferior system in the process of being abandoned. Why are we changing when the Europeans have obviously learned something is missing in the system they are leaving.

Outsourcing searches means two people must understand the invention. A searcher must understand the written and illustrated disclosure and the claim language in the patent application. Most applications only claim a small portion of the application disclosure in the independent claims so the searcher must determine which part(s) of the disclosure to focus the most searching effort. The searcher must plan the search strategy.

Within the USPTO motivation to search is directly related to art knowledge. If the searcher does not appreciate the art he is searching there is less likelihood that the best prior patents will be pulled for use against the application claims. Therefore, unless the certified searching entity has the number of art-specified searchers that the USPTO has, the search quality should decrease.

The USPTO should have the most art-specific experienced collection of searchers in the world because it has the largest number of people assigned to search applications which are supposedly grouped by related disclosures.

Unfortunately, the USPTO has fluctuated over time in the ability of classification people to get similar applications to the same examiners. This decreasing ability to group similar applications increases the opportunity for lack of understanding or appreciation of the components and/or functions that enable an invention to function differently from a prior invention.

This knowledge or lack of knowledge in turn affects the search and prosecution of the patent. If the search time is limited for examiners, and it is, then searching experience will guide the selection of the art areas and databases and the tools to use.

This is not logical. After working at least fifteen years and spending millions of dollars on developing computerized search tools the USPTO is now rushing to outsource the searches. If the computerized search tools are inadequate why not fix them and rely on a known searching system under USPTO control and not an untested certified searching organization be it domestic or foreign. The potential security risk and possibility of economic loss of technology has not been fully considered.

If the searching tools are a problem then surely the USPTO should stop the shredding of the best technical teaching library in the world, particularly because it contains our classification system which is another issue.

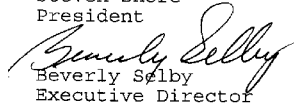
There are so many variables which have not been thoroughly considered which can effect the end product of the patent. This combined with other elements of the Strategic Plan plus the proposed fees requires a return to the drawing board for the Plan. In the rush to "redo" every facet of the USPTO the lack of emphasis on the mission of a quasi judicial nature to issue patents seems to be missing. There are serious legal questions in the outsourcing of the examinations plus the lack of security, particularly at this time, is not comforting for the inventor.

The Alliance Affiliates appreciates the effort and time in the Strategic Plan but sincerely hope that more time will be given in rethinking the initiatives. If patents are the "trade routes" for the 21st Century as Fred Warshofsky claims in his book "Patent Wars" then the United States is giving up its most lucrative asset.

Sincerely yours,



Steven Shore
President



Beverly Selby
Executive Director



BIOTECHNOLOGY
INDUSTRY
ORGANIZATION

Statement of
The Biotechnology Industry Organization

For the Oversight hearing on "The U.S. Patent and Trademark Office: Fee
Schedule Adjustment and Agency Reform."
Before the

Subcommittee On Courts, the Internet And Intellectual Property
House Judiciary Committee
U.S. House of Representatives

On July 18, 2002

The Biotechnology Industry Organization (BIO) represents more than 1,000 biotechnology companies, academic institutions, state biotechnology centers and related organizations in all 50 U.S. states. BIO members are involved in the research and development of healthcare, agricultural, industrial and environmental biotechnology products.

Intellectual property is the key to economic growth and scientific advance in biotechnology. Patents protect the fruits of research and development investment and, in doing so, provide incentives for that investment. In fact, intellectual property is the asset base for most biotech companies. Strong, predictable patent protection is essential to the success, and in many instances to the survival, of biotechnology companies in the U.S., and encourages the discovery and development of new medicines and diagnostics, agricultural products, and other breakthrough technologies.

America enjoys the most robust biotechnology industry in the world due, in large part, to the availability of reasonably priced patent protection for biotechnology inventions. A streamlined and efficient patent examination

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process is vital to the biotechnology industry. Without strong, dependable, and reasonably priced patent protection, the capital necessary to sustain and grow our industry will become unavailable. We share U.S. Patent and Trademark Office (PTO) concerns regarding the speed and quality of the patent review process.

We commend the agency's aggressive efforts to improve the services they provide to patent applicants. We look forward to working alongside the agency and this Subcommittee to address those concerns. However, the proposed fee increases included in the "21st Century Strategic Plan," put forward by PTO Director Rogan on June 3, 2002, are disproportionately burdensome for our industry and would punish the very innovation that is the lifeblood of our industry. For this reason, we oppose the fee proposal as it currently stands.

BIO appreciates the opportunity to share with the Subcommittee our concerns about the fee proposal included with the PTO's strategic plan. Included in this statement are several recommendations that correct the punitive nature of the proposed fee schedule.

End Fee Diversion

The diversion of patent filing fees to other programs should halt immediately. Patent fees have continued to be diverted to the general budget even as the PTO's workload has soared. In fact, the PTO projects that by FY 2006 the number of patent application filings will increase by 84 percent. Clearly the financial demands on the PTO are apparent and responding to these demands requires additional funding. However, before our industry is asked to incur substantial increases in fees to support services at the PTO, all patent fees collected by the PTO must stay within the PTO budget.

Reasonable and Proportionate Fees

BIO supports a fee schedule that reflects fees for services that are proportionate with the cost of providing those services. The newly proposed fee schedule would adversely affect many biotechnology companies that have filed applications based on reasonable filing strategies, and would increase their fees excessively. We believe changes are needed to the PTO's fee proposal in order to avoid

exorbitant fees, particularly for those applications that have already been filed, or for applications that will be filed in the future that must draw on earlier patent application filings for their support.

Reasonable and proportionate fees can only be predicated upon future growth projections based on accurate patent filing data. The PTO should make public patent filing trends – and the funding implications of those filing trends – so that the biotechnology industry – and other PTO constituencies – can work together with the PTO to identify appropriate triggers in the patent application process that would justify additional fees.

Furthermore, biotechnology patent applications are often accompanied by hundreds—if not thousands—of pages of nucleic acid or amino acid sequence listing as required by the PTO. These sequence listings should not be subject to fees. BIO believes that any new fee structure should be designed to minimize the unique impact on biotechnology applicants who follow prosecution practices based on legal and policy developments of the PTO.

Changes to Patent Fees should be Prospective, not Retroactive

The PTO's fee restructuring proposal would penalize biotechnology applicants that have followed reasonable filing strategies based on past PTO fee structures and examination policies. Simply limiting the application of the new fees to cases filed after the effective date of the current fee proposal will not address our concerns. The PTO should provide a safe harbor of a reasonable time frame for applications that will be filed in the future based on existing filing strategies.

BIO opposes the current fee proposal because it would penalize owners of long-pending applications for past prosecution practices that were driven by PTO requirements. Particularly within the PTO biotechnology art units, patentability policies have changed dramatically over time, resulting in applicant prosecution practices varying in direct response. For example, biotechnology applications often include lengthy disclosures and many claims to meet the written description, enablement and utility requirements as defined by PTO's

guidelines. This filing practice has resulted in claim counts and application lengths that would be severely penalized under the proposed fee schedule.

Adopt “Unity of Invention” Standards

The issue of paramount importance to the biotechnology industry is the PTO’s restriction practice. Currently the PTO’s restriction practice, heavily applied in the biotechnology and chemical arts, has led to the filing of a disproportionate number of applications to a single inventive concept. This practice creates an unreasonable burden on biotechnology patent applicants, an increase in PTO workload, patent applicant expense and a reduction in patent term. The PTO’s strategic plan advocates an even more burdensome approach to restriction practice. BIO opposes the proposal in the current strategic plan and advocates efforts to restructure restriction practice along the lines of “Unity of Invention” standard along with European-style claim structure followed in Europe, Japan and in the Patent Cooperation Treaty.

We believe such a change would alleviate many of the problems the PTO has identified with multiple co-pending applications, and will yield practices more consistent with those in other industrialized countries. The basic concept of “one application, one examination and one patent” could then serve as the starting point for discussing improvements in patent office practice and appropriate fees to be paid by applicants.

Deferred Examination

BIO supports the PTO proposal to separate the filing and examination fees, which will decrease filing costs and save applicant expense. Moreover, this deferred examination will lead to significant workload reduction because the PTO will only examine those applications that an applicant has determined to be of continuing commercial value. The proposed 18-month deadline for requesting examination, however, does not seem compatible with the goals just noted. For example, we do not believe the PTO or biotechnology applicants will realize significant value from deferring examination unless the

deferral period exceeds 18 months from filing. This allows patent applicants the opportunity to gather pertinent information and allow for publication of potentially competing applications.

BIO recognizes that the PTO faces significant challenges in issuing high-quality patents under its current funding situation and we strongly support adequate funding for the PTO. The viability of our industry is directly related to the PTO's ability to provide timely and enforceable patents for our intellectual property. Prior to the adoption of any increases in PTO fees and any revision of the PTO's method of fee assessment, the diversion of fees to other programs must stop. In addition, PTO should provide a more substantial basis for a fee proposal to ensure that it is fair and equitable.

We believe that PTO Director Rogan has the best interest of the PTO and its user groups in mind and his efforts to strengthen the agency through this aggressive strategic plan are laudable. BIO urges a careful, measured approach, where the PTO works with its various constituencies to refine the elements of the current fee proposal in order to meet both the agency's goals and those of its user groups. We look forward to working with the PTO and the Congress to further support the American patent system.



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We are the current and past Presidents of the Association of Patent Law Firms (APLF), and we write to you in those capacities to express our opposition to the U.S. Patent and Trademark Office Reauthorization Act of 2003. The APLF believes that this legislation, innocuously presented as a fee increase, amounts to a substantial revamping of the United States patent system. The APLF contends that it is improper to push through this significant overhaul of the patent system as a "mere" appropriations bill without study and public debate of its deleterious impact on the U.S. economy. Indeed, we fear that the matter is being handled in the current manner precisely to avoid public discourse and debate on the merits of this new system.

The USPTO's 21st Century Strategic Plan states that it is the result of a thorough top to bottom review of the entire agency and seeks to make the USPTO more market responsive. However, the plan notes that its implementation will require behavioral changes within the USPTO and among users of the patent system. In our view, some of these behavioral changes seem designed to reduce the number of patent applications to be filed and to narrow the scope of subject matter to be patented. The APLF believes that Congress should not mandate such drastic changes until all affected parties have had a chance to be heard. At a minimum, the USPTO should not pursue such changes outside the established format for regulatory changes after permitting public examination and comment. The U.S. companies and individual inventors who will be most impacted have not had a chance to openly present their opinion of this legislation. Until such time as this can happen, and all interested parties have shared their input, we ask that you reject any attempt to mandate "behavioral change" of patent applicants by the smokescreen of a mere appropriations request.

Even for ordinary patent applications, this legislation represents a startlingly huge increase in the fees for practices which are fully condoned by the laws governing U.S. patent practice. The APLF believes that the fee increases are being offered by the USPTO as a way to entice Congress into passing legislation, which would ostensibly provide additional funds for Congress. However, an inspection of the impact of such fees reveals that, far from increasing fees, the result may be to decrease the number of patent applications being filed and to increase the abandonment of pending applications. If so, the plan may have the effect of lowering PTO revenues below today's level. Although Congress may conclude that reducing the workload being asked of the USPTO is a good thing, such conclusion should not be reached lightly. We contend that the proponents of this legislation have not studied the economic impact of such a radical shift in protection of products and ideas.

Initially, the APLF objects to the amount of the new examination fee. Under the current system, the filing fee is \$740 for large companies, and \$370 for small companies and individual inventors. Under the newly proposed system, large companies would pay \$1,550 in filing and

examination fees and small companies would pay \$1,400. This is a 100% increase for large companies and a 300% increase in filing fees for small businesses and independent inventors!!! The USPTO consistently runs in the black under the existing fee structure. Thus, this increase is far out of line with what is fair, or what is needed to update and to continue to run the USPTO. No purpose is served by increasing the filing fees 100-300%. The overall increase in fees will likely be much greater once other charges are imposed during prosecution. This will almost certainly negatively impact the number of patent applications filed, which will lead to a decrease in fees collected by the USPTO, and less protection for the inventions of the American people.

Further, the plan proposed charges for additional claims (i.e., claims beyond an arbitrarily defined standard number of claims) are excessive and in some cases ludicrous. For example, U.S. Patent No. 6,400,595, recently issued to Micron Technologies on June 6, 2002, covers computer memory, contains 374 claims, and cost approximately \$8,000 in additional PTO surcharge fees under the current rules. Under the newly proposed fee legislation, this fee would jump to *OVER \$47 BILLION*. We recognize that 374 is a large number of claims, and the USPTO has an understandable desire to lower the number of patents with large numbers of claims. But the proposed legislation goes too far. Even had this patent only had 200 claims, the additional fees would have totaled over \$20 million. The APLF opposes these fees as unreasonable, unfair, and ill advised. Ironically, these fees proposed by the plan represent an approach that is directly contrary to the "market" based approach that the plan purports to adopt.

The proposed fee legislation will also add new penalties for filing a patent application that is related to earlier patents or applications. Such penalty will be either in the form of fees for multiple continuation/divisional applications, or in the form of a fine for pursuing "patentably indistinct" claims. The fine (i.e., starting at \$10,680 and rising rapidly thereafter) would be levied if an examiner determines that an application claim is patentably indistinct from a pending application of an issued patent. As written, the patentably indistinct standard is not defined, and the fine may well apply to rejections for a wide variety of reasons. It should be noted that a patentably indistinct claim does not mean that the claim covers the same invention as the other claim; but rather, that the two claims appear similar in scope. At a minimum, such fines will result in a great increase in the number of appeals by applicants who contest the fine, and there is no suggestion that this aspect of the plan has been carefully considered. The APLF believes that Congress should not allow the USPTO to prevent inventors from obtaining the full scope of patent protection afforded them by Congress through the use of prohibitive fee legislation.

Moreover, this fee proposal is retroactive, thereby applying to all applications pending as of October 1, 2002. These applications were filed under the current practice, which permits such close claim language, and Congress has set up a process to handle the patentably indistinct claim (the terminal disclaimer).

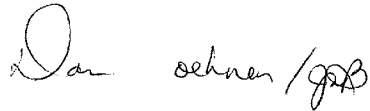
It is also the position of the APLF that this legislation may well have a chilling effect on the overall U.S. economy. We contend that a healthy patent system has been an important factor in the economic engine that has brought jobs and prosperity to the United States. If the cost of obtaining patents is increased overnight by 100-300% or more, businesses will be forced to seek

and obtain fewer patents, thereby opening themselves up to unscrupulous competitors. The APLF feels strongly that the proposed fee legislation will undermine America's competitive advantages, at a time when we can least afford it.

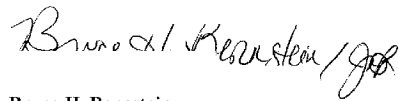
Finally, the APLF notes that a USPTO fee increase has already been proposed and was published in the Federal Register Vol. 67, No. 88, pp. 30634-30637 on May 7, 2002. The APLF believes that this legislation is eminently more appropriate for an appropriations bill and is more than fair.

The APLF believes that Congress should research the DRAMATIC impact this proposal will have on U.S. companies and on the U.S. economy before DECIDING WHETHER TO ENACT such a radical overhaul of the patent system. We therefore ask you to please join us in opposing the U.S. Patent and Trademark Office Reauthorization Act of 2003, as currently proposed.

Thank you for your time and consideration.

Handwritten signature of Dan Bochnen in cursive script, followed by the initials "gpb".

Dan Bochnen
Current President, Association of Patent Law Firms

Handwritten signature of Bruce H. Bernstein in cursive script, followed by the initials "gpb".

Bruce H. Bernstein
Past President, Association of Patent Law Firms



David Peyton
Director, Technology Policy
International Economic Policy

July 18, 2002

Honorable Howard Coble
Chairman
Subcommittee on Courts, Intellectual Property, and the Internet
Committee on the Judiciary
B-351A RHOB
Washington, DC 20515

Dear Mr. Chairman:

The National Association of Manufacturers (NAM) is the nation's largest and oldest multi-industry trade association. The NAM represents 14,000 member companies (including more than 10,000 small and mid-sized manufacturers) and 350 member associations serving manufacturers and employees in every industrial sector and all 50 states. Headquartered in Washington, D.C., the NAM has 10 additional offices across the country. The NAM wishes to submit the following statement for the record of the Subcommittee's hearing today on "The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform."

Overall, the NAM is encouraged by the new management initiative from the PTO. It is no less welcome by being overdue, after a disappointing decade that saw too little progress in automation, increasing and intolerable delays in patent application processing, and increasing questions about the PTO's ability to separate deserving from undeserving applications in its huge workflow. Now, users of the patent system have more reason for optimism than any time in years. PTO management is displaying more foresight, and staff more energy, than in recent memory.

Without question, upgrading the professionalism of the career staff is necessary, and all of the PTO initiatives directed to this end make eminent sense. Simple as it sounds, even improving the basic English-language ability of examiners is important. The NAM also applauds the overall use of pricing mechanisms to induce needed improvements in the patent system, and notes in particular that the PTO is proposing what we called for in advance: price breaks for electronic filing. The announcement of agreements with five vendors of e-filing services on June 18 was a very positive step.

We wish to address four topics today in detail: funding; continuing or delayed applications; literature searching; and timing and emphasis for carrying out PTO initiatives.

Manufacturing Makes America Strong

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Funding: Diversion Is Still Bad, and the Administration Still Needs a Real Plan

Regrettably, the PTO's new plan assumes enactment of the Administration's FY03 budget proposal. That plan calls for a surcharge, only \$45 million of which would be returned to the PTO and \$162 million of which would be siphoned off. We will not repeat here the voluminous material detailing the baneful effects of the decade-long practice of siphoning some of the PTO's revenues off to pay for other government programs. Wrapping continuing fee diversion into an otherwise largely promising management plan makes it no less objectionable. Moreover, reliance on a surcharge opposed for good reason by the users of the system means that the Administration has not produced a meaningful and generally acceptable plan for funding its initiatives, which, on the whole, are positive and, in some cases, long overdue. At the same time, the management plan should not suffer guilt by association with the discredited and destructive policy which has left the Office increasingly underfunded and backlogged.

The NAM maintains the position it took with the Subcommittee three months ago: There should be a unified, cost-based fee schedule with no hidden extras and no diversion, producing adequate revenues to fund the necessary automation, staffing and management initiatives to pull the PTO's performance up to where it can truly serve the economy and promote innovation. Given that U.S. fees are the lowest in the world, we believe that industry will be willing to pay more if – and this is a big if – the money goes entirely for the stated purpose and not elsewhere, and if those fees increases are reasonable and tied to costs for implementing the PTO Strategic Plan.¹ To be serious and credible, an overall plan to break out of the status quo must have a fee schedule as just outlined. In short: Industry will pay more to get better service, if budgeters and appropriators leave the money alone. Essentially, this is what has happened at the Food and Drug Administration, which proves that this deal is, indeed, attainable. Industry is ready to undertake its part, but budgeters and appropriators must first show there are ready to do their part by desisting from the repeated diversion of money that has proven to be destructive.

Continuing or Delayed Examinations: Take a Cautious Approach

The PTO plan identifies delayed examination as an issue that requires attention. At the same time, more discussion is warranted. Delayed examinations may make sense as a financial instrument, functionally speaking; an option that may or may not be exercised. It is ironic that a country as financially sophisticated as the United States has never consciously adopted such a provision before. However, the concept of delayed examination also imposes costs on members of the public who cannot determine when, if ever, certain types of patents may issue. Such delays cast a shadow over future investment.

In effect, the huge backlog of unprocessed applications – today's issuances are coming out 25-26 months after filing, and today's applications may not issue for up to four years – has put all applicants into a giant bin for "Delayed Examination, Like it or Not." NAM members find such involuntary delay burdensome and want to be released from it. Indeed, a specific delayed examination provision is rather meaningless until the PTO works down its current backlog.

¹ Some of the fee proposals, such as those for additional independent claims and additional total claims, appear burdensome. Moreover, these fees do not seem to be tied to implementing the Strategic Plan but rather towards changing certain types of applicant behavior that the PTO finds objectionable.

Moreover, other courses of action can have the same effect of achieving delay. Unstated in the PTO plan is that the singular continuing and divisional application practice in the United States has served in some sense as a corresponding practice to deferred examination in other countries.

Adopting delayed application on top of this mix of practices is not the same as starting with a clean slate. Under the old system, a fixed term of 17 years, continuing applications gave rise to the hugely expensive practice of long-delayed "submarine" patents. These patents continue to plague U.S. industry, their costs now reaching about \$2 billion. Abuse of continuing applications as a method to game the system and prevent issuance, that is, remaining secret from others while trying to incorporate new public disclosures -- is still possible.² At the same time, there can be valid, legitimate reliance on continuing applications.

The NAM believes the PTO is on the right course to ratchet up fees for continuing applications. It may take some experimentation to get the new schedule right, allowing legitimate users to incorporate their latest thoughts yet forcing parties trying to game the system to pay a prohibitive price. Changes in PTO rules and practice may also be in order, in two respects. Applicants could be given an opportunity to make a showing of diligent prosecution. And now that the Court of Appeals for the Federal Circuit has clarified the applicability of the laches doctrine,³ the PTO can be bolder about rejecting long-delayed continuations. What makes this decision somewhat tricky is that there are two costs that should be avoided: those stemming from abuse of continuing practice; and those of up-front examination fees for inventions that owners will later decide are not worth it.

If formally deferred applications are added on top on continuing applications with price disincentives and are tested out in practice, there might no longer be a strong rationale for retention of continuing applications. That, however, is a question that could only be reached at some future time.

Searching by Private Contractors: The PTO Should Conduct a Successful Pilot Project Before Making Any Broad Changes

It appears that the most controversial aspect of the PTO's plan is for literature searching to be done by private contractors (and paid for by applicants) rather than by career staff at the PTO. The NAM is willing to consider the proposal but cautions that assuming a sudden change for budgetary or management purposes is both unrealistic and risky.

² It appears that Track 3 of the proposed Four-Track Process could also result in an unjustified delay in examination of U.S. applications. Under Track 3, the PTO would examine an application based upon the claims allowed by another patent office. The process would require the applicant to request expedited examination in the patent office of first filing, but there appears to be no ongoing requirement that the applicant take all steps necessary to expedite the prosecution of the application on an ongoing basis. Filing requests for expedited examination is easy to do; taking all steps necessary to expedite the prosecution is not. Since Track 3 permits the applicant to delay examination of the counterpart US application until examination is completed by the other intellectual property office, a long pendency period in that other office will result in a long delay, or deferral, of examination of that application in the PTO.

³ *Symbol Technologies v. Lemelson* (no. 00-1583, decided Jan. 24, 2002).

In the proposal's favor, many observers can all cite dubious patents where not only did the examiner not find relevant prior art, but the applicant -- to all intents and appearances -- should have done so as well. There is an undeniable quality problem and a corresponding strong need for better searching. At first blush, it does not seem logical -- or perhaps even practical -- for the entire burden to fall on the PTO staff alone.

On one hand, how to induce a better effort by applicants has perplexed many observers. Rule 56 calls for individuals associated with the filing and prosecution of applications to disclose all information known to them to be material to patentability. Essentially, it is an anti-concealment provision, similar in spirit to the best mode requirement. At the same time, there is no current duty or obligation for any applicant to search for any prior art that they do not already know about. Under existing rules of practice, this rule has created a highly risk-averse environment. How to find a way out of this situation is a valid inquiry. If applicants are required to perform extensive pre-filing searches and to characterize the prior art found in those searches, then new levels of complexity will be added to all patent procurement and enforcement proceedings. To keep this proposal from causing yet more expense and inefficiency in patent litigation, such a requirement should be coupled with an amendment to the Federal Rules of Civil Procedure duly limiting the circumstances in which inequitable conduct can be alleged.

On the other hand, PTO staff are overstretched and will be for some time. It is fair, perhaps even urgent, to ask how patent examiners can better use their time. The recent revamping of examining practice in Class 705 (commonly known as business methods), while not designed for this purpose, proved that adding extra examiners and extra attention at the review level, can have a marked effect in reducing the approval rate, especially in a contentious subject area. Is there some way, then, that examiners can be moved in aggregate to higher-value activities?

On the negative side to the proposal for Private Contractor Searching, the PTO staff is unique in its unquestioned neutrality and objectivity. When patents of dubious validity have been granted, questions have gone to the amount of time the examiner was able to spend in searching and examination, what sources were consulted, how well bibliographic database retrieval was working and not whether the employee was honestly trying to do his best. How to replicate that level of neutrality and objectivity on the outside is a question that must be addressed.

In keeping with the welcome overall policy of inducing needed change through pricing, any movement in the searching area should be voluntary. An applicant should be able to choose to do the searching himself, or pay another competent private party to do it, or can pay a higher traditional fee to the PTO for it to do the usual expected search for prior art.

The smaller the company -- and the NAM has 10,000 small business members -- the likelier is the search to be done by outside counsel or a specialty firm. The PTO could form a trial internal unit dedicated to searching with specialized concentrations in particular technologies or could spin off a new unit to perform searches, either a government corporation or a private corporation, composed of employees inclined to take an appropriate offer to move.

Whatever the scenario, it is of paramount importance that known best practices from both the private and public sector are followed in any searching effort.⁴ It would seem incontrovertible that literature searchers, whoever and wherever they are, should work from the same foundational knowledge and, as a profession, should engage in continuous improvement. Moreover, the NAM assumes, there would have to be some meaningful audit or review of any effort to separate search and examination functions to be sure that such a system achieves its desired goals.

The NAM wants to see more public discussion on the pros and cons of the search and examination functions being unified, as today, or split, as proposed. The European Patent Office (EPO) has had different people doing searching and examination, but has recently decided to have the search and examination done by the same person under their program called BEST (Bringing Search and Examination Together). Before any changes in US practice, the NAM thinks it is important to understand more about the EPO experience and in particular to understand why it has changed direction. Splitting searching and examination makes no sense unless there is a true net advantage for the patent system as a whole. The NAM is willing to consider this possibility, but the overall value proposition certainly has not yet been established.

To move fast toward outside searching represents an attempt to shift costs out of the PTO budget as a maneuver to deal with chronic underfunding. The right solution to the problem of underfunding, as the NAM has said before, is a revamped and increased fee schedule, wherein all fees are retained by the PTO. The right reason to consider outside searching is to generate movement toward mutual recognition of patent-search results. Today, the only candidate for mutual recognition that would draw no qualms is the EPO; Japan, with its history of patent "flooding" – albeit that this is a dubious practice of applicants – would give some people pause despite the high experience level of its staff. The seniority, language expertise and neutrality of EPO staff are unquestioned, and there is no known comparable dubious practice to be concerned about.

The real goal should not be immediate budgetary advantage to the PTO, but to establish a baseline of globally accepted patent searching standards to which any legitimate party potentially could adhere. Whether such standards would ever rise to the level of the International Standards Organization's (ISO's) 9000 series standard for quality management, or would need to, are interesting questions that perhaps lies beyond the scope of today's hearing. Some level of agreement on practices and protocols will have to underlie mutual recognition by providing the trust in the procedures of others that it implies.

The NAM agrees that there is a worldwide workload crisis in patents. The principal source is the staggering amount of rework – and remember that rework is wrong in principle under quality management – occasioned by the nineteenth-century country-by-country system in place under the Paris Convention. This system is broken and cannot conceivably serve the

⁴ The NAM is not saying that today's manual of practice for examiners needs to become the rule book for everybody. We are saying that known best practices with positive content would be indispensable to creating trust in any new system. What are the agreed-upon key information sources that must be consulted in any search, the ones likeliest to yield relevant prior art? In the *Gazette*, the PTO has published a list of some 900 sources. Possibly, some of examiners' expertise in the latest business sense of best practices is not documented. What are the variations from subject area to subject area?

global economy of the 21st century. Some steps taken already have alleviated the crunch, most notably the creation of the EPO. And many countries in Africa, for example, lacking the resources to search, will accept an EPO search. Mutual recognition with Europe is a welcome first step towards the ultimate goal of “doing it right the first time,” a cardinal principle of quality management, leading to enforceable rights wherever needed throughout the world.

Here, then, are the elements of an initial approach in this area:

- Do a pilot project to establish proof of concept. Pick a chosen subject area or areas.
- Make participation entirely voluntary under the fee schedules, with traditional service remaining available.
- Start documenting best practices and establish a new professional nucleus to take ownership of continuous improvements.
- Explore different models.
- Audit results and track patents searched in non-traditional ways. How do they compare with conventional treatment in the new quality measurements that the PTO is formulating?

Emphasis and Timing

Notwithstanding the major questions that the NAM has raised, and that other parties will raise as well, the NAM wants – and the PTO needs – as much progress as possible. In this regard, the NAM offers two major suggestions.

First, look at authorization as a two-step process. The NAM completely agrees with the assessment that a major authorization bill, far broader than that passed by the House last year, is needed. We stand by the outline we submitted to the Subcommittee three months ago and are pleased that the PTO has incorporated some its elements into its plan. At the same time, it has become clear that a major bill does not seem in the offing this year. The NAM notes that only in recent days has the Senate passed bill the House passed by voice vote last year.

We see no reason why the PTO cannot be authorized to give a price break for electronic filing right away. Who could be against that? In general, given the urgency of moving ahead with electronic filing in any event, any legislative item directly related to that end should be given immediate priority.

Second, consider the relative contexts for trademark and patent administration. The former task is inherently less challenging and in better overall shape; the latter faces numerous difficulties and is the principal subject of the management plan. The PTO has assumed quick adoption of its full plan. Since that is neither likely nor, in the cases we have discussed, advisable, we recommend that the PTO put more energy and resources in the next six months to one year in building on its relative success on the trademark side. Advancing the electronic-filing schedule for trademarks would provide tangible benefits for industry. Unless there is some technical obstacle that the NAM does not know of, there is no reason why this program cannot be expedited while the more controversial parts of the patent proposals are more fully vetted and more agreement is established.

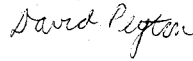
Conclusions

Mr. Chairman, we conclude that the best course for the PTO is as follows:

- Move ahead with the elements of the management plan greeted by all as worthwhile, especially upgrading the professional capabilities of the staff.
- Give more thought to the controversial elements of the patent side.
- Advance the targets for trademark automation. The PTO has some success here and can deliver undeniable user benefits by achieving its targets even sooner.
- Seek only a limited authorization this year under which, at a minimum, the PTO cannot be authorized to give a price break for electronic filing right away.

Thank you for your consideration of our views.

Sincerely,

A handwritten signature in cursive script that reads "David Peyton".

David Peyton
Director, Technology Policy



LICENSING EXECUTIVES SOCIETY

(U.S.A. and Canada), Inc.

A Member Society of the Licensing Executives Society International

1800 Diagonal Road, Suite 280, Alexandria, VA 22314-2840 USA

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July 16, 2002

Hon. F. James Sensenbrenner, Jr.
Chairman
Committee on the Judiciary
U.S. House of Representatives
2332 Rayburn House Office Building
Washington, D.C. 20515-4909

Dear Chairman Sensenbrenner:

I write on behalf of the Licensing Executives Society USA & Canada (LES) regarding the U.S. Patent and Trademark Office's recently proposed fee schedule. LES is opposed to the fee schedule conceptually and with regard to specific fee amounts. In summary LES strongly believes that the fees proposed are contrary to the public purpose of the patent system and hurtful to innovation and the economy. LES urges the PTO to re-think this issue and LES offers to assist the PTO to undertake this reconsideration.

The Licensing Executives Society (U.S.A. & Canada), Inc. is a professional society comprised of over 5,000 members who are involved in the transfer, use, development, manufacture and marketing of intellectual property, including professionals in the field of law, academics, science government and the private sector. LES is a member society of the Licensing Executives Society International (LESI), which has a worldwide membership of more than 10,000 members in 27 national societies, representing over 80 countries.

LES is aware that the PTO is seeking private comment regarding draft legislation to change the structure and amounts of the PTO fee schedule (copy attached). Summarized, the scheduled being aired would simultaneously significantly raise patent application fees by effectively doubling the fees for filing and examination of a simple application and radically increase the potential costs of many prosecutions of patent applications by initiating fines for routine PTO activities that were previously included in the application fee.

LES is also acutely aware that PTO fee generated income has been appropriated to the General Fund in large amounts over the past years. Indeed, the proposed fee schedule appears to be largely driven by the PTO's charter under the current budget to recover enough money to divert \$160 million to the general fund. In addition, the nearly twenty percent surcharge on patent fees for FY 2003 is exorbitant.

The combined effect of the newly proposed fee increases the likely continued diversion of PTO fee income affects a tax on creativity. This diversion would add to the more than \$600 million in patent fees diverted since FY 1992.

President
James E. Malackowski
VJCRC Services, LLC

President Elect
James R. Sahler
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Immediate Past President
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Winter Meeting
February 13-16, 2002
Hyatt Regency Lake Las Vegas
Las Vegas, NV

Spring Meeting
May 1-4, 2002
The Mayflower Hotel
Washington, DC

38th Annual Meeting
September 22-25, 2002
Sheraton Chicago Hotel & Towers
Chicago, IL

Technological creativity has been and will continue to be the principal driver of economic growth in the United States. The patent system is an integral part of value creation in technology by providing disclosure of new inventions, providing inventors with a constitutionally created period of exclusivity in which to commercialization their inventions and providing the foundational components for a marketplace in technology (known as technology transfer or licensing) which contributes importantly to the financial liquidity of the economy.

Exemplary of a few of the negative impacts of the proposed fee structure are:

1. Fees for basic patent application and examination will go from \$740 to between \$1550 and over \$25,000.
2. The very high fees for "patentably non-distinct claims" and additional inventions per application will tempt examiners to make very detrimental decisions against applicants in order to raise fee income for the PTO on issues which are often open to a great deal of debate. These fees are so high (in one case \$16,690) as to be punitive to inventors of all classes. They will inevitably increase the number of appeals filed. These fees also attack longstanding practices of inventors designed to negotiate with the examiner the true and fair scope of the invention and the appropriate claims to cover it.
3. Many of the new fees appear to be unrelated in any meaningful way to the cost incurred by the PTO in dealing the item. For example, there is effectively no cost associated with an examiner's dealing with a continuation application. Indeed, the subsequent applications are often less expensive to handle because the prior art was located in the first application. However, the proposed fee schedule would charge between \$1000 and more than \$8000 for earlier filed applications over two. Also, there is little expense to the PTO for handling applications with patentably non-distinct claims, again because most of work will have largely been done in the earlier application. Regardless, the fee schedule sets amounts of over \$10,000 for filing such an application. These numbers suggest fines rather than fees.

Therefore, the LES Board of Trustees proposes the following:

1. The PTO withdraw its currently circulated proposal.
2. The PTO develop a fee schedule based upon the actual cost of performing its services.
3. The PTO establish a policy of non-punitive fees.
4. Legislation be enacted preserving to the PTO's use all of the fee income generated by it.

LES stands ready to assist the PTO and Congress in these important endeavors.

Thank you.

Sincerely,



James E. Malackowski
President

PREPARED STATEMENT OF INTELLECTUAL PROPERTY OWNERS ASSOCIATION

SUMMARY

- IPO congratulates the Patent and Trademark Office (PTO) on putting forward a creative, bold, and comprehensive strategic plan for improving its operations, and heartily endorses many of the proposals. IPO finds, however, that it must oppose the Administration's draft fee bill and some key elements in the plan.
- The draft fee bill raises patent and trademark fees partly for the purpose of diverting \$162 million to unrelated government programs in 2003. The Administration is favoring a deplorable tax on innovation that will harm the PTO and our members at a time when the Administration should be concerned about renewed economic growth that innovation can help foster.
- Deferred examination of patent applications, which is required by the fee bill, will add to and institutionalize uncertainty over patent claims. Deferred examination diminishes the "public notice" function of claims, interferes with commercialization of new products, and makes litigation more likely. The perceived benefits of deferred examination to the PTO in our view are illusory.
- The "Four Tracks" examination system would permit or require patent applicants to pay private contractors directly for official searches and have the PTO base its examination primarily on the results of such searches. The cost to applicants likely would be greater than for searches performed by the PTO or its own contractors, and applicants might be accused of manipulating the system.
- The size of the 50 percent-plus fee increase is not linked to the cost of operating the PTO or to the improvements proposed in the strategic plan. Moreover, the levels of fees such as excess claim fees are not in proportion to the cost of extra work required to examine the application. Excess claim fees now in the bill rise exponentially with the number of claims. IPO members report that some applications would cost more than \$100,000 per application.

INTRODUCTION

IPO is an association of U.S.-based owners of patents, trademarks, copyrights, and trade secrets. Our members include about 100 American corporations that are among the largest patent filers in the United States and worldwide from all major industries. Our members file about 30 percent of the patent applications that are filed in the U.S. Patent and Trademark Office (PTO) by U.S. nationals, and pay about \$200 million a year in fees to support PTO operations.

IPO congratulates the PTO on putting forth a creative, bold, and comprehensive plan that seeks to tackle seemingly intractable problems of the PTO relating to patent examination quality, speed, and cost effectiveness. We heartily endorse many proposals in the plan, and we support all of the broad objectives of the plan. In this statement we identify proposals that IPO endorses, those that we believe need further study, and those that we oppose. We strongly oppose the Administration's legislation for increasing patent and trademark fees effective October 1, 2002, for reasons we explain.

First we review IPO's perspective on PTO reform. The stakeholders outside the PTO who are most important are the users or customers of the PTO and the public at large. Our members, as both patent owners and manufacturers, find themselves placed firmly in both camps. When we are in the patent-obtaining camp we want patents to be valid and enforceable and to issue promptly from a cost efficient process. When we are in the other camp we want those patents that issue to other parties to be valid and enforceable and to issue promptly.

From our perspective, there are three key elements or "filters" for the stakeholders in the patent process. It is helpful in analyzing the many ideas for patent reform to pass them through the three filters to assess their desirability. The filters are:

- Quality—Only valid and enforceable patents issued;
- Speed—Rights are clarified early; and
- Cost-effectiveness—Inefficiencies and duplication are excised and operational excellence prevails.

I. WE SUPPORT MANY OF THE PROPOSALS

We support many of the proposals called for in the detailed 21st Century Strategic Plan documents that were posted on the PTO web site on July 5, 2002, because we

believe they will improve quality, speed, and cost-effectiveness. IPO has a strong interest in patent quality—our highest priority—and agrees that the PTO needs more resources to do its job adequately, so we support a major funding increase for 2003. More specifically:

- 1) IPO enthusiastically supports the 22.2 percent increase in funding proposed in the President's budget, which would raise spending to \$1.365 billion in 2003, a level that for the first time in many years actually would be somewhat higher than projected fee income, if fees remain at their current levels. The extra money is needed to ensure patent quality, speed up the examination process, and implement improvements proposed in the strategic plan. Congress should draw on previously withheld fees to meet the PTO's needs.
- 2) We endorse in principle the proposed actions relating to improved hiring and training of examiners as well as recertification and salary improvement for examiners. These actions should improve quality, reduce time and provide a more efficient process, even with additional costs in salaries and training, since they would likely result in a retained, improved workforce.
- 3) We support various aspects of the plan that would better align U.S. patent law and practice with the "best practices" of patent offices, including features of patent laws outside the United States that represent "best practices." We agree that these efforts should permit greater "work sharing" and mutual recognition of certain aspects of patent examination work. Greater substantive patent harmonization, done on a best international practices basis, should produce quality, speed and efficiency improvements for the PTO, as well as make it easier for U.S. firms and inventors to obtain and enforce patents abroad.
- 4) We support in principle statutory changes to simplify patent procedures. The PTO plan proposes, for example, to allow an assignee to make an application for a patent application and file the oath, and to allow assignees to file broadening reissue applications.
- 5) As a general proposition, we support competitive outsourcing of selected PTO technical functions such as pre-examination processing, reclassification, and even the technical aspects of patent searching. However, that support is conditioned on the ability of a contractor to deliver on the quality, speed, and cost effectiveness objectives.
- 6) In principle, we very strongly support accelerating the introduction of "e-government" into the PTO. We are not supporting e-government for its own sake, but because—in the context of overall process reengineering and other initiatives—the specific e-government initiatives will enhance the quality, speed and cost-effectiveness of PTO operations. From a user perspective, it is crucial that the private sector investment in IT be leveraged in any e-government initiative at the PTO, i.e., the PTO should not adopt expedients that appear cost-effective from an internal perspective but substantially burden the user community with the need to acquire and implement "start from scratch" IT systems to be able to take advantage of e-filing.
- 7) Post-grant review or oppositions for patents, if done effectively, may improve patent quality. Since the PTO does not have the capability of locating some prior art, the participation of opposers who have an interest in removing or amending patents in an opposition process would be useful. Making such a process an efficient, quick, and quality program would require that the decision makers be highly trained and that the process be tightly time and subject matter controlled so that litigation-type diversions and costs do not creep into oppositions. Reexamination or other post-grant review is not "getting it right the first time." Thus we believe post-grant review should be viewed as separate from examination reform.

With our shared goals of enhancing quality, speed, and cost effectiveness of patent and trademark processing, we believe a plan will emerge that we can fully support.

II. WE SUPPORT SOME PROPOSALS SUBJECT TO MODIFICATION OR FURTHER STUDY

Level of Fees

We categorically oppose the current fee bill because it is designed to divert \$162 million in fees to unrelated government programs (see later section of this statement) and it requires a system for deferred examination of patent applications (see later section of this statement). If these obstacles are overcome we would support

legislation to make reasonable increases in fees for the purpose of improving quality, speed, and cost effectiveness. This leads to a discussion of what fee levels are reasonable.

The Administration's bill raises patent fees by 51 percent for a patent owner who pays all basic fees and keeps the patent in force for its life. The increase is 59 percent for a patent owner who pays the basic application fees but does not pay any maintenance fees to keep the patent in force. The increases for patent owners who are subject to excess claim fees, related application surcharges, and other extra fees in the bill can be dramatically greater than 51 or 59 percent.

These levels are arbitrary. The fees in the Administration's bill must be recalculated based on the latest and best estimates of how many patent applications will be filed in 2003 and later years and what the 21st Century Strategic Plan will cost. The fee levels proposed in the Administration's fee bill were calculated by working backwards from the total PTO income projected in the President's original 2003 budget, which would have been \$1.527 billion including fee surcharges. The rate of increase in patent filings has been dropping, however, and the assumptions in the President's budget are badly outdated.

The President's budget projected 2003 patent filings that are 20 percent higher than the filings now projected for 2002—a totally unrealistic estimate. Funds needed to work off the backlogs and implement the strategic plan are likely to change significantly with changes in the assumptions about filings. In any event, the fees must be calculated based on what an acceptable five-year strategic plan will cost, including funding for ongoing operations and improvements the plan proposes to make in quality, speed, and cost effectiveness.

Fees for Extra Claims, Extra Pages, and Related Applications

We also oppose the bill because the fees are unnecessarily harsh that are intended to modify the "behavior" of patent applicants by discouraging the filing of large or unnecessary applications.

Fees in the bill for excess independent claims and excess total claims rise exponentially as more claims are added. We do not understand the basis for exponential fee increases. Our members have reported that under the bill excess claim fees in a significant number of cases would be more than \$100,000 per application. The bill should not arbitrarily prohibit claim writing practices that companies believe are necessary to protect their technology. The bill must be amended so that excess claim fees bear a rational relationship to the cost to the Office of examining excess claims.

We do not object to reasonable fees for extra sheets of specification and drawing in excess of 50 or reasonable fees for filing an application that contains or is amended to contain a specific reference to an earlier-filed application, but these fees need clarification. The fees for excess pages should reflect the cost of examining applications with excess pages. For example, appendices to applications such as sequence listing that are not reviewed in detail should be treated differently from pages of specification. Fees for referring to earlier filed applications should not apply to applications that have been subjected to restriction requirements. We recommend that Congress establish the levels of these fees by statute, with annual cost of living increases, in the same manner that other fees are set by Congress.

We oppose any fee for claims that are not patentably distinct from claims in another application or patent. This fee would give the PTO an undesirable incentive to make double patenting rejections in applications when not warranted and serves no apparent purpose except to raise additional revenue.

For many years, incidentally, IPO as well as other organizations have supported use of the unity of invention standard for determining the scope of the rights examined in a particular patent application. We believe that if that standard is utilized and costs are properly determined and charged to applicants, the standard will pass the quality, speed and cost effectiveness tests.

As indicated, our support for any of the above fees is subject to eliminating diversion of fees to unrelated government programs and linking the fees to PTO costs.

"Four Tracks" Examination Process

We can support some features of the "four-tracks" patent examination process, but others we find ill advised or in need of further study. We agree with the objectives for the process except for "leveraging greater participation from the applicant community and public," which should be qualified. Processes that merely shift work outside of the PTO and into the hands of the applicant will not necessarily produce work that is more efficient or of higher quality.

A patent owner's view of the process is from cradle to grave, i.e., from conception of the inventions to expiration of the patent. The PTO is directly involved in only a short segment of this time period, but the PTO's actions can affect the patent ap-

plication and patent during almost the entire time period. For example, the PTO's handling of searching and unity of invention affect pre-filing activity and its performance on examination and post-grant processes affect the patent for its life. From the applicant's and public's point of view, the process should be considered from conception to expiration.

We do not currently have enough information to either support or oppose the proposal for separating the functions of searching and examining. Separation of searching and examining introduces a potential inefficiency by requiring two individuals instead of one to become familiar with the claims of the application and the reasoning behind potential rejections of claims. If two skilled professionals would separately and sequentially vet the application (skilled searcher and skilled examiner), it must be determined whether there is likely to be an improvement in quality ("two eyes are better than one") or a potential loss of quality (i.e., diminished finesse of the patent examiner in understanding and applying prior art).

As we understand it, the European Patent Office may be abandoning its longstanding separation of search and examination. This gives us some pause in supporting moving to the former EPO approach without a better grasp of where the "best practice" lies on the issue of separated search and examination. On the other hand, we can see huge potential benefits in relying on searches performed by international and foreign patent offices (Tracks 2 and 3) from a cost standpoint. In addition, shared searching activity with other patent offices may enable a greater degree of specialization of searchers in particular technologies, leading to higher quality searching.

We need more information, however, before offering an opinion on Track 3. It appears that this track could lead to substantial deferred examination of the U.S. application, which the IPO strongly opposes. Track 3 requires that the applicant request expedited examination in the office of first filing, but there appears to be no ongoing requirement that the applicant take all steps necessary to expedite the prosecution of the application on an ongoing basis. Filing requests for expedited examination is easy to do; taking all steps necessary to expedite the prosecution is not. Since Track 3 permits the applicant to delay examination of the counterpart U.S. application until examination is completed by the other IP office, a long pendency period in the other IP office would result in a long delay, or deferral, of examination of that application in the PTO. The applicant in Track 3 would usually be a non-U.S. applicant, so Track 3 could give foreign competitors of U.S. companies a distinct advantage.

We also need more information before offering an opinion on moving official searching to private outside contractors (Track 1). As explained later in this statement, we oppose permitting or requiring patent applicants to purchase the official searches that are to be used by the PTO directly from private contractors. We have not studied the four-track examination system for trademarks, but we question whether trademark applicants should buy their official searches directly from private companies either.

We recommend further study of a Track 1 that would have the PTO contract with private companies to perform searches, with the PTO, not the applicant, paying the company for the searches. Such a system appears to have several benefits. Private contractor searching for the PTO, together with appropriately crafted Tracks 2 to 4, could give the Office flexibility to rely on contractor searches, international or foreign patent offices searches, or examiner searches. It would enable management to make marketplace judgments on which source the PTO should use for searches to achieve quality, speed, and cost-effectiveness in particular circumstances. As explained in the discussion of deferred examination later in this statement, such a four track system would not require deferred examination or charging separate filing and examination fees, and might not require legislation.

III. WE ABSOLUTELY OPPOSE SOME PROPOSALS

Fee Increase Legislation That Facilitates Withholding or Diversion of Fees

The President's 2003 budget proposes to withhold or divert to unrelated government programs \$162 million in patent and trademark fees. We explained the reasons for our opposition to withholding or diversion of fees in our testimony before the House Subcommittee on Courts, the Internet and Intellectual Property on April 11, 2002. We continue to strongly oppose withholding or diversion of fees.

By the end of 2003, according to current projections, nearly \$1 billion dollars will have been withheld or diverted. The practice of withholding or diverting fees has been a major factor contributing to the large and growing backlog of applications the PTO faces. A five-year strategic plan for improving the PTO cannot succeed until the PTO can obtain a financing system that will let the PTO know how much

money it can count on. The PTO should have access to all of its fees collected in the current year and previous years.

The Administration's fee bill is calculated to produce the same amount of income projected in the President's budget, which calls for withholding or diversion of another \$162 million. We take this as confirmation by the Administration that it is still urging Congress to withhold or divert \$162 million.

By making more money available, the fee bill would make it easier for the Appropriations Committees to divert money. The Administration's policy is a deplorable tax on innovation at a time when the Administration should be concerned about renewed economic growth that innovation can help foster. In the absence of some solution to the diversion problem, the Administration's fee bill is simply unacceptable. IPO will oppose any fee increase bill designed to make it easier to withhold or divert fees.

Deferred Examination

As we indicated in our letter on May 16, IPO believes deferred examination does not pass the filter for speedy examination of patent applications, which is important to the public. We have consistently opposed deferred examination as a general proposition even though it exists to limited degrees today. With deferred examination, the public must contend with a growing, large inventory of unexamined patent applications, thus adding to the uncertainty of the overall system.

It is important to understand that deferred examination and separation of search and examination are separate concepts. We do not oppose separation of search and examination if such separation can pass the quality, speed, and cost effectiveness filters.

A procedure similar to the Four Tracks examination process could be devised under which a search would be performed by the PTO or an outside source, followed promptly by a separate PTO examination. The applicant could be notified of the search results immediately on completion of the search, if desired. Separate fees for search and examination would be unnecessary. Implementation of such a separate search and examination might not require legislation. The PTO could have flexibility to separate search and examination in some cases and not others, and flexibility to hold up examination to wait for search results from foreign patent offices, within reason.

To go beyond separation of search and examination, however, and defer examination for the purpose of delay, would add to and institutionalize uncertainty over the patentability of claims. Delay in examining patent claims is contrary to the "public notice" function of claims cited with approval in court opinions. E.g., *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17, 21 (1999). While procedures already exist that enable applicants to delay (cf., e.g., *Symbol Technologies, Inc. v. Lemelson Foundation*, 277 Fed. 3d 361 (Fed. Cir. 2002)), the availability of such procedures is not a justification for encouraging or officially sanctioning more delay.

Such delay can stand in the way of commercialization of new products and processes by other parties in an industry. Other parties can be even liable for a royalty on the unexamined claims if notice is given and a patent later granted. The ultimate result of uncertain patent claims is less competition in industry, fewer choices for consumers, and a likelihood of litigation. Furthermore, deferred examination could encourage more filings on marginal inventions and discourage applicants from making their own pre-filing searches.

The benefits of deferred examination for the PTO in coping with its workload in our view are illusory. If 10 percent of patent applications drop out of the examination process before the examination fee is paid, as the strategic plan estimates, the PTO will receive about 10 percent less revenue. The 21st Strategic Plan falls into the trap of claiming as an achievement a 9-month pendency reduction that comes merely from measuring pendency from the date when examination is requested instead of the date when the application is filed. (Plan overview, page 3.) The only reason to defer examination is to accommodate applicants who wish to delay, but that interest is outweighed by the interests of the public at large.

Deferred examination is implicit in the fee bill, since the bill establishes separate fees for filing and examination. Indeed the bill as written authorizes the Director to defer examination not only for 18 months as discussed in the strategic plan, but permits the Director to sanction deferral for any period. We strongly oppose the Administration's fee bill because of deferred examination.

Applicants Buying Official Searches Directly From Private Contractors

Track 1 of the Four Tracks Examination Process envisions having a patent applicant pay for and submit a certified search report prepared by a private contractor,

and have the PTO base its examination primarily on the results of the private contractor search. As indicated, we favor further study of the PTO outsourcing its searching to private contractors, but we oppose permitting or requiring the applicant to procure the official search to be used by the PTO directly from a private contractor.

Applicants under Track 1 would be expected to pay contractors for their searches and, as we understand it, would receive only a small discount on the examination fee paid to the PTO in return. Even the largest patent applicants would not have sufficient purchasing power to obtain searches at a cost as low as the cost to the PTO of performing a search itself or having a PTO contractor perform the search.

Moreover, we do not believe individual applicants should be permitted to participate in determining the quality of official searches. To permit the applicant to work with a private company in determining the nature and scope of the search to be performed could create opportunities for manipulating the system that would diminish the level of public confidence in patents and increase patent litigation.

Mandatory Information Disclosure Statements

The strategic plan calls for rule amendments to make it mandatory for patent applicants to explain the relevancy of prior art citations when more than 20 references are cited, and to subject parties to a "duty of inquiry." Based on the information available, we cannot support mandatory information disclosure statements. The law already requires disclosure of references that are material to patentability and makes a resulting patent unenforceable if failure to disclose would justify an inference of intent to mislead. We cannot see any way to avoid an increase in allegations of fraud or inequitable conduct if applicants must include a discussion of the relevancy of the prior art that compares the prior art with a claim.

IPO supports the objectives and many of the proposed actions in the 21st Century Strategic Plan. We appreciate the strong interest that Chairman Coble, Ranking Member Berman, and other members of the Subcommittee have taken in improving the PTO, and we look forward to continuing to work with the Subcommittee on PTO issues.

PREPARED STATEMENT OF JOSEPH L. EBERSOLE

I am pleased to have the opportunity to present the views of the Coalition for Patent and Trademark Information Dissemination on "The U. S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform." Our statement will be limited to "Agency Reform," detailed in PTO's "The 21st Century Strategic Plan" and its proposed outsourcing of search and classification functions.

The Coalition for Patent and Trademark Information Dissemination is a group of private sector companies that provide value-added services for patent and trademark information users. These companies have been investing in and building search services for 50 years with the objective of continually improving the quality and efficiency of patent and trademark searching. For patent search purposes, their services cover both patent and nonpatent literature; and for trademark searches, U.S. pending and registered marks, as well as state, common law, and foreign marks.

The depth of these companies' experience is illustrated by a few key points in their fifty-year history. For example, IFI Claims began building its patent databases in 1955, while Derwent traces its first value-added patent service to 1948. In the early 1970s, Dialog and Orbit first made value-added patent search services available online, and in the early 1980s, Lexis came out with the first patent full-text search service. This was later followed by the introduction of patent information on optical disks provided by MicroPatent. Most of the services now cover patents from throughout the world, with emphasis on USPTO, EPO, and JPO. The scope of databases available is illustrated by Questel-Orbit, which provides 25 distinct patent databases with access to 80 million patent references and 19 trademark databases. And in some cases, such as for U.S. patents issued from 1971 to 1974, private sector databases are the only complete electronic source.

Most of the firms, although started for the purpose of providing better quality and efficiency for users doing patent and trademark searches, also began providing patent and trademark search services many years ago in response to private sector customer requests. This was because the technical strengths necessary to build and continually enhance search tools lend themselves to providing searches for those who want to outsource that service.

THE 21ST CENTURY STRATEGIC PLAN

We support the plan. Congress criticized PTO for “not being sufficiently innovative” and directed it to improve quality and reduce pendency. Now, Director Rogan has proposed an innovative approach to improving quality and timeliness; and given the inherent resistance to change among the legal profession, we would expect a guarded response to this bold proposal. We are especially impressed by the Plan’s emphasis on “creating a quality-focused, highly-productive, responsive organization supporting a market-driven intellectual property system for the 21st Century.” Coalition members’ long history of innovation and development in creating and providing quality-enhancing, productivity-increasing services for patent and trademark users can, we believe, be effective in helping the U.S. patent and trademark office in achieving these goals.

Indeed, we stand ready to respond when the time comes to assist PTO in such major tasks as:

- Classifying patent documents.
- Supporting national application and Patent Cooperation Treaty search activities.
- Transitioning to a new global patent classification system.
- Classifying trademark goods/services and searching design codes.

We agree that greater examiner productivity can be achieved by reducing their prior art burden; and as a result of relentless efforts over many years to increase quality through better and better search services, and the expertise resulting therefrom, we stand ready to assist PTO in reaching this goal. We welcome and endorse the need for PTO to create and establish improved quality assurance techniques that will, *inter alia*, “ensure that patent searches provided by the private sector or other patent offices are complete and of high quality.” In this respect, we stand ready also to share information with PTO on our quality control and quality assurance techniques developed over many years in order to accelerate the building of this capability.

Outsourcing of searches is a feasible step for a number of reasons. First, for many years, major decisions on patentability have been outsourced to private sector search firms by applicants, especially for potentially important patents or trademarks. Such applications are not filed unless and until a preliminary decision as to probable patentability or registrability is made based on the results of such a search. Indeed, examiners will tell you that if the case matters, the applicant will have searched more widely and in greater depth than would PTO.

Second, for many years EPO has conducted searches separately from examination and these have been recognized broadly as the best in the world. Thus, the idea that a quality search can be conducted only as part of the examination process is erroneous.

Third, every time a patent is invalidated after issuance, such invalidation occurs because of what was found in a private sector search that showed the previous search by the patent office was not of adequate quality.

Although there is ample evidence that private sector searches, separate from examination, can be of equal or even higher quality, there are differences that should be recognized as PTO moves ahead with planning for the many details involved in assuring a high quality of searching. For example, there is no gainsaying the fact that with a staff of 3500 examiners, PTO has the greatest single concentration of technical expertise that exists anywhere in the world. And because of this large number, individual examiners can develop expertise in very narrow subject areas. Indeed, a seasoned examiner with five to ten or fifteen years of experience normally develops his/her own special search files focusing only on his/her specialty area. It has to be recognized that no private sector organization can muster a staff of specialists in 3500 separate narrow areas of technology. But, that is not a reason not to outsource searches; it is merely one of the facts that has to be taken into account when planning training, tools to be provided, certification requirements, monitoring, quality assurance procedures, etc.

Further, as with any innovative step, no one can predict with absolute precision its eventual detailed contours. Most fears that opponents have will not be realized, but unforeseen problems will undoubtedly arise and there has to be a process for continuous adjustment along the way. PTO should use a deliberate, phased, step-by-step approach to carefully implement change. Each step will have to be tested and validated.

One advantage of outsourcing is that it would enable some degree of activity-based costing and help PTO move one step closer to full-cost accounting, so as to

better respond to the criticisms raised by the appropriations committees. As to the potential for cost savings, some evidence is available related to the significant number of patent and trademark applications that today have searches conducted before filing. In the future, such searches could become the outsourced search with the results submitted directly to PTO, after filing, by the search firm. There are issues to be resolved before implementing this on the patent side. However, discussions between Trademark Operations and private sector search firms indicate that the federal marks reported as a result of a trademark search could be stripped out of the search report and forwarded to PTO for slightly less than the \$50 difference in fees for the Strategic Plan's Trademark Option 1. Thus, the benefits of the proposed Option 1 process can be realized with no increase in total costs, and possibly a slight decrease.

Outsourcing of searching has one other potential cost advantage for PTO. Each year for the past twenty years, private sector patent and trademark information companies have invested millions of dollars in technology developments to constantly improve search services so as to provide increased quality and productivity to patent and trademark searchers. In a competitive environment, such private sector investments will continue. However, with a reduced need for continual enhancement of internal search systems as a result of outsourcing searches, PTO development funding can be redirected from search systems to ensuring faster implementation of paperless processing as directed by the Congress.

Mr. Chairman, the patent and trademark information industry which we represent has been built on the raw material supplied by the PTO in the form of bulk patent and trademark data. From this, the private sector builds value-added search services and databases. The creation of a competitive marketplace for patent and trademark information and search services was the result of PTO policies that stimulated creation of a variety of value-added services by the private sector. The Coalition was created to work with your Subcommittee and PTO management to continue these policies, and to maintain a balance between PTO's free services to the public and the for-fee value-added services our industry provides to the patent and trademark user communities. As such, we have been partners with PTO in maximizing dissemination of patent information as envisioned by the writers of our Constitution. The main thrust of patent and trademark search systems development over the years has been continually to increase the quality and the productivity of patent and trademark searching. We are confident we can continue to be partners with PTO in helping to deliver the high quality of search and classification services demanded by The 21st Century Strategic Plan.

R. Lee Grantham

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<time>

The Honorable Howard Coble
2468 Rayburn House Office Building
Washington, DC 20515-3306

Dear Congressman Coble:

This letter and the attached written discussion are sent to you regarding the USPTO's 21st Century Strategic Plan.

This writing is specifically directed to PTO's desire to eliminate prior art searching as an in-house responsibility. The attached includes a detailed summary of PTO's position on this subject expanded to include a description of the actual activity.

The AIPLA and IPO comments on the Plan are essentially silent on the subject of prior art searching. They are concerned with fees and honestly do not grasp the inherent dynamics of the activity. Another voice is required.

Many in the search community are convinced that there is much more at stake than simple labor cost, as is argued by the Office. We believe that the very integrity of the United States patent system is threatened. Please incorporate the attached argument in your deliberation regarding the PTO's 21st Century Strategic Plan.

Sincerely,

(Sent via

computer)

R. Lee Grantham

PREPARED STATEMENT OF R. LEE GRANTHAM

INTRODUCTION

On July 5, 2002 the USPTO released “The 21st Century Strategic Plan. This document is posted on the PTO website. The Plan argues that the Office is tremendously overburdened and that the traditional procedures of filing and examining patent applications is a partial source of the problem. Roughly 325 thousand utility applications are filed annually. The expanding workload has caused the PTO to propose that it “transform itself into a quality-focused highly productive, responsive organization supporting a market-driven intellectual property system.” The Plan (henceforth Proposal) approximately 350 pages, proposes in detail a radical reorientation in the way the PTO conducts business.

The Proposal is organized around three principles: Agility, Capability, and Productivity. The scope is vast. Everything and anything that impacts the prosecution of the application, it seems, has been reviewed. Upon reading the Proposal it is evident that the PTO feels that the biggest obstacles to the patent and the patent examination process is the volume of applications examined coupled with the time consuming task of locating applicable prior art. The necessity of both reducing costs and improving quality are the drive behind the plan and the basis of “the patent and trademark systems of the future.” This brief essay can not address the comprehensive thrust of the proposal (it does include many changes with positive impacts) but focuses on a single element: the task of locating reliable prior art.

I first present a summary of key details of the Proposal followed by a discussion on the activity of finding prior art.

THE PROPOSAL REGARDING PRIOR ART SEARCHING

The Proposal recognizes the role of prior art. The Proposal states “Locating prior art is one of the most important aspects of the patent examining process.” (P09, p.1)

A simple count directed to the number of times a concept appears in the document shows that patent searching is the one issue receiving significant across-the-board consideration. Discussions of the issue appear at least twice under each of the three principles. The PTO wants to completely absolve itself from the prior art search activity. According to the Proposal all searching will be done by outside entities. The following is a review of the Proposal limited to the function of identifying prior art.

PRODUCTIVITY

In terms of productivity the PTO isolates two changes that it believes will positively impact the processing of applications.

A. Pendency 2—Four Tracks Patent Examination Process (P-01)

An overall new examination framework is presented in this section of the document. Under this scenario a typical applicant has three options in submitting an application to PTO for examination. The applicant decides if an examination is wanted and is allowed 14—18 months in order to direct the Office to proceed if wanted. Applications will not be examined unless the Office is directed to do so. Every track requires that a search be submitted with the request for examination. (P-07-01)

Track 1 (the basic track) requires that the applicant submit a Certified Search Report in an International Style Search Report format provided by a Certified Search Authority at the time a request for examination is made. The actual examination will be based essentially on the prior art provided by the certified searcher. If the examiner deems it necessary a supplemental search will be performed.

Track 2 applies to cases filed as PCT's in which the United States serves as the International Searching Authority. In this situation the PTO takes responsibility for the search product but will not actually perform the task. PTO proposes using a Certified Search Service as a contractor who will then perform the work. In such cases the search product is given full faith and credit. It is anticipated that the PTO examiner will accept the results and lacking a egregious error conduct an update when needed.

Track 3 applies when the applicant applies first in a foreign country with which the United States has a reciprocal agreement. The applicant request's that the country of first filing transfer the case to the USPTO at the stage of first action. At this point the Office will determine patentability based on prior art identified by the country of first filing. The search product is given full faith and credit by the PTO

Track 4 applies to micro-entities defined as having a maximum annual income of 70K. The Office will secure the prior art search thereby alleviating the applicant

of that responsibility. The search will be conducted by an outside contractor. Again, the contractor will be given full faith and credit for the search product.

The goal of the four track approach is to reduce the time and effort devoted to searching. (P-01, p.3)

B. Shared Responsibility 1 (FR-1)

This section of the proposal is directed to the fee's associated with a separated filing and request for examination sequence. The logic is that the time consuming task of locating prior art will be shared by the applicant, either as a separate prosecution charge if outsourced or by the applicant securing a Certified Search by a service provider licensed to do so. The Proposal highlights that the PTO incurs lower cost by not engaging in the search activity, thereby leading to timely prosecution, resulting in reduced pendency. The PTO further argues that the quality of issued patents will be improved. (p.9)

CAPABILITIES

Specific discussion related to quality is made in this section of the document. The PTO proposes three changes, one internal and two external, which should result in enhanced quality.

A. Quality 3—Expansion of Patent Application Work Product Reviews (P-17)

Currently (actually until just very recently) quality review is (was) centralized in the Office of Patent Quality Review. The internal change would require a dispersion of this function to the Technology Centers, the point of examination. The Proposal details the internal mechanisms and structures expected to be employed. This includes an In-Process Review and a Second Pair of Eyes. Presumably, poor quality searches and decisions based upon them would be flagged by the extra scrutiny.

B. Quality 6—Certification of Searching Authorities (P-07-01)

This section of the proposal assumes that the actual search function is reallocated to the private sector. This section describes how that would look. The primary argument is that the private sector can devote more resources to the search function and therefore provide quality improvement. (p.1) Suggestions are made regarding necessary criteria for certification, and the appropriate steps regarding the act of searching itself; all designed to satisfy quality issues. There is strong emphasis on keyword searching using commercial databases. (p.3) Further, awareness by the searcher of the U.S. Classification system is expected for those applications requiring this resource. (p.2)

The development of TEAM is mentioned but no further references to this concept could be found elsewhere in the Proposal.

The Proposal points out that there are "substantial" cost saving benefits involved by relinquishing the responsibility of maintaining the tools necessary for in-house search capability. This includes the classification system and the automated electronic database search systems. (p.1) and (P09, p.4)

C. Legislative Rules 1—Mandatory Information Disclosure Statements (IDS) (P-09)

The proposals made in this very broad section will require legislative action. More narrowly, the IDS requirement is tied to the prior art search function as it assumes that the Four Track examination framework is adopted. The change will require that the applicant provide all information relating to the claimed invention including anything used to draft the application or used in the inventive process. The PTO expresses concern with the existence of non-patent information known to the applicant but not widely disseminated. This non-patent information is required on top of the Certified prior art search.

AGILITY

For purposes of prior art searching, agility is directed to enhanced cooperation between the USPTO and the Patent Offices of partnered foreign countries. The discussions herein relate to Track 2 and Track 3 of the Four Track examination process.

A. Flexibility 2—Support for Patent Cooperation Treaty (PCT) Search Activity. (P-28)

This simply states that the search function will be outsourced in situations where the U.S. is the Designated Search Authority.

B. Work Sharing 1—Proposed Procedures to Implement Mutual Reliance of Search Results Program. (P-36)

A chronological implementation sequence addressing enhanced cooperation with foreign IP offices is presented. It lays out some preliminary ground rules/expecta-

tions for the creation of a “mutual reliance of search examination results program.” (p.1)

SUMMARIZING

The USPTO has engaged in much thinking justifying why it should not be involved with the task of identifying prior art. With searching abandoned or reallocated as an examination activity then the Examining Corps. can focus on the core examination activity, that is, “concentrating on patentability determinations.” (P-07-01, p.1) The PTO thinks that the activity of identifying prior art will be better performed by the private sector as it is argued that quality will improve. There are cost arguments made claiming that the Office will benefit by dispensing with a time consuming and labor intensive activity and its inherent infrastructure.

A brief discussion follows regarding the prior art search activity.

THE ART OF SEARCHING

The Expert

Since the first Superintendent of Patents, the Office has emphasized the classification of inventions. Further, the very first examiner was hired in 1836 precisely so prior art could be applied to deny applications. The young man so hired had been around the patent office for several years and was intimately familiar with the extensive prior art collection of that day. Patented prior art and now pre-grant publications accumulate weekly as patent office records. Historically, the examiner in the role of public sector prior art searcher acquired recognition as an expert through direct repetitive hands-on contact with the prior art, literally. Senior examiners acquire a feel for patentability based on awareness of the historical aspect of specific art. The expert is presented with an application and looks for art directed to a specific claim. Accumulated knowledge of the art, including that which is analogous, facilitates that task. The expert lends creditability to the validity of issued patents

The Generalist

The private sector searcher is a different character with a different societal role. The private sector searcher is mostly a generalist. The generalist learns the broad organization (e.g. classification) of at least one wide technology group (e.g. mechanical, electrical, chemical). The generalist looks for broad teachings based on a limited disclosure. The search product is used to facilitate the writing of a patent application or to advise against one. It is called a pre-examination search.¹ A contextual feel for the notion “average skill in the art” is essential to recognizing germane prior art. Generalists provide an IP function that for most applicants is not cost effective to employ in-house. This is reflected by the fact that the generalist works for scores of clients in dozens of different industries

Necessary Skills

It is obvious that within the three broad technology groups specific educational backgrounds are needed. The more advanced the basic technology the greater the need for specific education. There is, in general, progression from mechanical to electrical to chemical in which a requisite degree of knowledge is required. This can come from educational programs or be self learned. Interpreting existing prior art when searching only requires fundamental understanding of the appropriate technical concepts. The Proposal sort of acknowledges this by stating that “. . . varying degrees of technical expertise are required for searching different technologies.” (P-07-01, p.2) and (P-28, p.1) The #1 required skill is not taught in a book but is a personality trait that motivates one to be thorough in the scope of the research project and further enables one to recognize quality prior art pertaining to the crux of the innovation. The research skill, or ethic, goes hand-in-hand with the quality of the search product. Analytical reasoning is the fundamental searchers trait as prior art searching is inherently an ambiguous assignment.

Searching Techniques

The Proposal provides a discussion directed to the necessary steps of the search activity. (P-01, pp. 8, 11) They are:

- 1) Identifying a field of search that covers the disclosed invention.

Note: this assumes that the searcher will utilize the patent classification system, and presumably will mine the classified collection to the fullest extent possible.

¹The private sector searcher also engages in non-infringement and validity investigations which are more time consuming, comprehensive and have objectives not mirrored by the PTO search activity. These prior art searches do involve claim analysis.

2) Selecting the proper tools to perform the search.

Note: this includes, firstly, the PTO EAST/WEST system which supports both a complete classified search and keyword searching back to approximately 1971—although rumor has it that text searching back to 1920 is coming soon—and, secondly, abstract documentation provided by various commercial databases including scientific and technical journals. Commercial patent databases also provide access to patented documentation. Also, a manual search of the classified collection for prior art that can not be reliably keyword searched and for art older than 1971 is expected. The private sector searcher often consults the experts regarding U.S. classification.

3) Determining the appropriate search strategy for the search tools.

Note: This is restricted to the PTO system which has limited nationwide capability and the commercial databases if suitable. I remind the reader the PTO envisions the heavy use of keyword searching techniques. (P-07-01, p.3)

The sequence is somewhat the same for both the expert and the generalist. Each uses the same source material. The searching apparatus beginning with classification and expanding into EAST/WEST was designed for the in-house expert. This is a mature functioning system that has served both the public (i.e. PTO) and private sectors well.

Information Sources

Depending on the technology there are also different non-patent source materials affected by access and availability. Historically prior art has consisted of the patent office files including U.S. patents, some U.S. classified foreign patents, and limited non-patent literature. Prior art in emerging technologies such as bio-tech and telecommunications is often disseminated in published technical literature before a patent application reaches the PTO. Regarding bio-tech, because it's so new, there is limited patented prior art. Business methods have presented a similar dilemma. It has become necessary rather recently to look outside the patent collection for prior art. This essentially means various databases with vast abstracted information. Despite the development of new scientific and technical fields, the classified patent collection is still the primary and most comprehensive source of technical information suitable to enable patentability determination. Some technical fields lend themselves to text searching particularly if the fields evolved during the recent past. Others, particularly the mechanical and electro-mechanical are not suitable at all (except as a final "cover your butt" check) since there is no common nomenclature. This is compounded by the fact that mechanical innovations have a longer history in comparison to electrical and chemical ones.

In calendar year 2001, 45% of all patents issued were in the mechanical arts, 30% in the electrical, and 25% in the chemical.

Recent Developments

The depth of prior art knowledge is a different requirement for the expert in contrast to the generalist. Traditionally, examiners were acknowledged for their expertise. In recent years, unfortunately, PTO has found it necessary and/or expedient to put more emphasis on processing applications quickly than on developing future experts. The introduction of text searching in the early 90's provided a short cut for performing a prior art search. The IP community is aware of a decline in patent quality. The private sector searcher regularly encounters established examiners who can't identify classified search fields and are unaware of known classified old art. Also, invalid patents, some very simple, have issued because the invalidating prior art was invented earlier than 1971. Traditionally, the examiner was involved (in addition to searching) with reclassification thereby reinforcing the learned evolution of the old art. As old school examiners retire they are leaving with accumulated historical knowledge that is not being replaced.

The USPTO is Internationally recognized for the quality of its product. Patents have been difficult to invalidate. The examiner knew the prior art and was able to find additional references directed to claimed subject matter. History has demonstrated that quality—in the core function of making patentability determinations—is directly a result of the expertise derived through both classified searching and involvement with reclassification efforts. By gradual erosion the PTO is losing its expert edge.

Summarizing

For the most part the prior art activity for both sectors is done the same way using the same resources and going through basically the same steps, although each has a distinctly different objective. The expert looks for focused subject matter directed to claims that are fashioned around prior art found during a search by the

generalist that emphasizes broader teachings.² Both the expert and generalist use and depend on the U.S. Classification collection for prior art. The core skills are essentially the same particularly analytical reasoning, investigative motivation and a firm technical understanding.

CONCLUSION

The PTO's skill at locating prior art is diminishing. In response the Office wants to eliminate the internal search function. Making patentability decisions is the core function of examiners. The PTO supposes that the core function is possible when the Office itself lacks accumulated knowledge of the prior art. This raises an interesting question. *Is prior art the substance of patentability or is it procedural?* The Proposal further refines the core function as including "competency in law, regulations and practice and procedures." (P-07A, p.1) Which is more critical to the quality of patents, applying references or awareness of the prior art? The knowledgeable expert and the classification system have proven to be pillars for patent quality. The in-house databases are unequaled for accessing available patent information. Due to the possibility of huge unintended consequences the PTO must engage in more deliberative thought and gain insight regarding probable outcomes. To do otherwise is reckless. The American Intellectual Property system could actually be worse off over the long term due to the loss of in-house expert capability.

The Proposal is loaded with assumptions regarding the secondary and tertiary impacts of the proposed Plan. (For instance, individual companies will know the prior art better than the future experts, or commercial databases will provide the same degree of access to the patent collection as does EAST/WEST or keyword style searching can reliably replace manual efforts etc. . . .) Starting with the same decisions but making different assumptions the path to a very different outcome is foreseeable maybe even probable. There are analytical tools designed to facilitate strategic/public policy decisionmaking. Techniques such as decision trees, cross impact analysis and trend projections are indispensable when attempting to engineer an outcome and attach probability to alternative outcomes. The PTO *hopes* that an improved patent system emerges. It is unclear how the PTO would recognize a low quality prior art search if it lacks knowledge of the accumulated history of the art. All of this is the subject for a much longer and in-depth analysis.

Further, there are numerous options regarding prior art searching that are not anywhere in the Proposal. It is hard to reconcile the act of divesting expertise while at the same time developing better quality. There are ways to keep expertise in-house but still reduce the budgetary expense. This too is the subject matter for another paper.

Two of the biggest questions that I expect to be addressed are, 1) is maintaining and housing the knowledge base for IP a necessary government responsibility, and 2) is reassigning the prior art function entirely to the private sector instrumental to the public good?

Further, questions raised by the prior art activity, in terms of the Plan, impact other issues addressed in the Proposal, including post-grant review of issued patents and transitioning to an improved International Patent Classification scheme. The author hasn't seen the sections on Global Development.

The PTO will adapt to the demands of the information age, massive change is unquestionably needed to correct system flaws. But that which was relevant in 1789 is true today. The Constitution stipulates that Congress has the power "to promote the progress of science and useful arts. . . ." Does jettisoning the 170 year history of in-house prior art skill detract from or promote the progress of the useful arts?

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF PATENT PRACTITIONERS

The National Association of Patent Practitioners (NAPP) is an association of over 350 members dedicated to supporting patent practitioners and those working in the field of patent law in matters relating to patent law, its practice, and technological advance. In support of its mission, the NAPP focuses on promoting good patent prosecution practices which will result in the issuance of clear and valid patents. While its membership includes patent attorneys, the majority of its members are patent agents in corporate or private practice. Many of its members represent individual inventors, universities, start-up businesses and small companies who would be se-

²The description fits in an ideal situation. Many applicants realize that filing without a pre-examination search enhances the chances of favorable patentability decisions and proceed without them.

verely damaged by the USPTO's 21st Century Strategic Plan, if implemented in its present form. However, the NAPP and the USPTO share many common goals. We both intend to secure for our inventors the best patent protection they deserve while protecting the public from abuses of the patent system and thereby removing obstacles to innovation.

The NAPP applauds the USPTO's foresight in many of its suggestions as set forth in its 21st Century Strategic Plan. These suggestions reflect that the USPTO realizes that changes are needed in order to improve the US Patent system.

The NAPP supports the proposal that funding should be increased for the USPTO operations.

The NAPP supports the concept that in order to have quality patent examination, the examiners should receive better pay and improved training, provided their accountability is raised commensurately. In particular, the NAPP supports the proposal that examiners be recertified.

The NAPP supports the continued efforts by patent offices worldwide to share their best practices and to learn from each other. Resisting a good practice because of a "not invented here" mentality is not acceptable to the patent community.

The NAPP supports efforts by the USPTO to simplify and reduce costs and fees for obtaining and maintaining patents.

The NAPP supports continued use of private contractors so long as they are held to be accountable.

The NAPP supports electronic filing, prosecution and record-keeping, provided that they reduce the overall cost to patent applicants. However, merely shifting expenses relating to other government programs from the public to the inventor sector to raise the overall cost to the applicant is completely inappropriate.

The NAPP supports introduction of post-grant review procedures so long as they are correctly implemented and properly controlled. The NAPP is concerned that large companies may use these post-grant review procedures to squelch patents of emerging entrepreneurs who rely upon these patents to seek and to obtain venture capital.

In view of the NAPP's agreement with many of the goals of the 21st Century Strategic Plan by the USPTO, we offer the following comments with respect to improving the USPTO's Strategic Plan.

Fee Diversion

The NAPP adamantly opposes the fee increases proposed by the USPTO's 21st Century Strategic Plan and adamantly opposes the continued diversion of fees from the Patent and Trademark Office to other federal programs. The United States patent system is the cornerstone of our nation's ability to remain on the leading technological edge of world commerce. The US patent system provides entrepreneurs, universities, companies and their investors the certainty and security absolutely needed to promote investment in new and emerging technologies. The tax on innovation caused by fee diversion only diminishes our long-term economic health. If the US government absolutely feels compelled to divert funds from the USPTO, at the very least these funds should be used to support government programs relating to the patent system, such as the courts that are focused on handling these exceedingly complex patent litigations.

Deferred Examination

The USPTO's proposal for deferred examination has a number of disadvantages, so the NAPP believes further study is needed before this plan is implemented. For example, separate examination will result in a number of applications being dropped in particular, the applications filed by individual applicants.

Many of the recent procedural changes by the USPTO, such as doubling the amount of work involved in filing an amendment, have resulted in shifting the burden of patent prosecution to the private practitioner. These costs are being absorbed by the applicants rather than being passed on to the public. In turn, the number of individual applicants has already been reduced because they are not able to afford the costs associated with having an application prepared professionally. The reduction in the number of applications is shown in the USPTO's report, which documents that the number of applications filed for 2002 is flat rather than reflecting the increase expected by the USPTO. Those who can afford professionally drafted applications will not abandon them simply because of the imposition of an examination fee. Rather, they will simply file fewer applications and develop fewer and fewer new technologies to the detriment of American society. Foreign countries with deferred examination have already culled out such innovations. In contrast, US companies have had the advantage that they sometimes held patents to inventions that were not highly marketable at the time the applications were filed, but because of

unanticipated market changes, later became highly successful and valuable. In such cases, the patentees benefited from owning the patents, and the public benefited from the disclosure of the technology. Thus, the patenting of unforeseen market successes leads to an overall benefit to society and adds to the storehouse of knowledge in the scientific community.

The present ability to file provisional patent applications already provides applicants with a one-year time frame in which to assess the prospective marketability of their inventions. During this one-year period, the applicant's costs are relatively low, and he is afforded time in which to decide whether or not to file a regular patent application. Therefore, the Abenefit@ expressed by the USPTO of deferring examination to conduct a market assessment is really no benefit at all. Moreover, the US maintenance fee system also serves as an existing means to cull out non-commercial inventions. Deferred examination is not necessary to achieve this.

We also note that Japan recently and significantly dropped its time to defer applications down to 3 years. The USPTO is coming late to this party. We find it odd that the USPTO is seeking to copy foreign procedures being abandoned or softened by foreign countries. The delay caused by deferred examination is undesirable. Examination should be deferred no more than 14 months and an immediate request for examination should be likewise met with an immediate examination. Moreover, pendency should be measured from the time of filing, not the time of the request for examination as a constant reminder to the USPTO that it is delaying the issuance of valid patents.

The Proposals to Increase Fees

As stated above, the NAPP is adamantly opposed to the USPTO's proposals to increase fees and to create new fees that are completely out of proportion to the costs of the work involved to process these applications.

We agree that if the USPTO needs more money in order to provide a system that grants valid patents in a reasonably timely manner, it should have access to that money. However, our primary position is that the USPTO should be able to retain and use more of its revenue instead of that money being diverted to unrelated programs. If it is absolutely determined that the fees should be increased to provide quality examination and to strengthen the validity of issued patents, we agree, in principle, to a fee increase. We also support the USPTO's efforts at cost cutting and simplifying patent procedures, on both the public and private side, to reduce overall costs to applicants. However, some of the proposed fee increases are outrageous and unrealistic.

The NAPP agrees with the proposal to increase the excess claim fees relative to the number of claims involved based on the presumption that there is more work involved in examining very large numbers of claims. However, we do not believe that the surcharge should be on an escalating scale and, in any event, the proposed behavior modifying surcharge levels should not be imposed after the 3rd independent claim or after the 20th claim. Rather, we favor setting the threshold at a level that is more closely aligned with the amount of additional work required for examination of the claims. For instance, we believe that the newly proposed Apunitive@ claims surcharges should begin after the 5th independent claim and after the 40th overall claim. We base our proposal on the fact that recent court decisions place a higher duty on the applicant to adequately claim his invention in order to achieve complete patent protection. Our experience as practitioners has shown that this kind of rigorous claiming frequently demands presenting up to 5 independent claims and up to a total of 40 claims. Since the vast majority of applications now on file fall within these ranges, the NAPP believes that continuing to allow applicants to present this number of claims should not be dissuaded by the claim surcharge structure. In addition, the NAPP suggests that the fee should be based on the claims as examined, not as filed. When claims are cancelled because of an examiner's restriction requirement or requirement for election of species, the applicant should automatically receive a refund of any excess claims fees. The NAPP agrees that excess pages in an application may require more work by the examiner in the examination process, and thus, these applications should be subject to surcharges. However, we believe that the threshold of 50 pages of specification and drawings as constituting excess pages is too low. Rather, we propose that the excess page fee begin after the 80th page. In addition, we propose that a different fee should be charged for applications containing computer codes and DNA sequences. The NAPP recognizes that it costs more to examine a complex case than a simple case.

The Related Application Surcharge proposed by the USPTO for claiming priority from prior US applications is too high and not related to extra effort required by the USPTO. Continuation practice is a great help to the USPTO in several ways. For instance, continuing applications typically have a shorter pendency. Also, the

continuing application is generally less time consuming than an original application because the Examiner has already read the disclosure, been engaged in the same or similar issues and has already searched the same or similar invention. In as much as continuations are easier to act on and take less time, no surcharge of any kind should be assigned to claiming the benefit of priority. If accepted, this excess priority fee must not be applied where the priority is claimed from a divisional application caused by an examiner's restriction requirement or requirement for election of species.

We agree with the Intellectual Property Owners Association, who in its Statement submitted to this Committee at its hearing on July 18, 2002, opposed any Related Application Surcharge fee for claims that the USPTO deems not patentably distinct from one or more claims in another application. Moreover, the proposed \$10,680 fee entices the patent examiner to issue an unwarranted double patenting rejection. The fee bears absolutely no relationship to the costs of processing applications with patentably indistinct claims. Under the current practice, most practitioners receive a double patenting rejection and, unless the rejection is outrageous, they typically file a terminal disclaimer with a \$120 government fee to overcome the rejection. In contrast, applicants will be forced to argue and appeal these obviousness-type double patenting rejections. This will result in overburdening the Examiners, the USPTO Board of Appeals and ultimately the courts. Also, in view of electronic filing it is easy to compare up to five applications by merely using the comparative command available in most software applications. Moreover, if a fee is imposed, it should be made clear that the fee only applies to claims that are not patentably distinct from claims in another application owned by the same applicant. It is also critical that this fee not apply where the applications are divisionals of one another necessitated by a restriction requirement or requirement for election of species made by the Examiner. Furthermore, the applicant should have the opportunity to amend the claims and to argue over the obviousness-type double patenting rejection before being required to pay the fee. We recommend (1) that the fee should be due only with the issue fee payment and (2) that there be an option to request a refund. Indeed, there should be the option to pay the fee, have the patent issue and afterwards appeal to request a refund. The NAPP welcomes the opportunity to avoid the filing an inordinate number of patentably indistinct cases, but only provided that the vast majority of applicants are not penalized. Thus, the NAPP is willing to support a reasonable increase in the terminal disclaimer fee to \$240, coupled with charging a more reasonable fee for patentably indistinct claims only when the examiner asserts that the claims of the application under examination are patentably indistinct relative to 6 (six) other applications/patents.

Certified Searches

The NAPP believes the proposed four track examination system has potential for improving patent examination but recommends that the USPTO must proceed cautiously. The Examiners already benefit from applicants who submit the results from foreign searches. Also the USPTO already has a streamlined issuance procedure for applications examined by the USPTO under the Patent Cooperation Treaty for which all rejections were overcome during the international stage. However, if use of foreign search reports can be improved we support that to the extent that differences in patent laws are taken into account and the Examiner is given time to do his or her own supplemental search. However, we are skeptical of any proposal to have private parties hired by applicants provide searches to be relied upon by the Examiner and believe such proposals should be studied further. We believe that searches can be contracted out but that they should be contracted out and paid for by the USPTO. Requiring the applicant to request a search from a private contractor is another hidden tax on innovation. The typical applicant already performs a patentability search before preparing the application. The USPTO, now in addition to the application fee and the examination fee is requiring the applicant to pay a hidden search fee.

Mandatory Information Disclosure Statements

The NAPP opposes any changes to patent practice requiring mandatory information disclosure statements. This is another attempt to have applicants do the job of the USPTO. No matter what an applicant says in describing a reference, opposing counsel in litigation will assert that the applicant did not meet the duty of disclosure. This will burden the courts with unnecessary litigation and drive up already skyrocketing litigation expenses. Indeed, this requirement will merely shift expenses from the USPTO to the already overburdened courts.

Conclusion

The NAPP favors the USPTO's goal to improve the patent system and is not opposed to new approaches that clearly benefit the applicant whom the USPTO is obligated to serve. However, we urge this Subcommittee to proceed with caution and be aware that some aspects for improvement proposed by the USPTO will have a negative impact on the innovative community and our economy as a whole. We appreciate the strong interest this Subcommittee is taking in improving the patent system at a critical time when the US is striving to maintain leadership in our global economy and we look forward to working with the Subcommittee and the USPTO to achieve these important common goals.



July 17, 2002

Rep. F. James Sensenbrenner, Jr.
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Dear Rep. Sensenbrenner:

I **OPPOSE** the United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003, currently before the **COMMITTEE ON THE JUDICIARY, Courts, the Internet, and Intellectual Property Sub-Committee**.

This legislation does not appear to have any beneficial purpose. It is more likely that, if enacted, it will have a profound negative effect on the economy of Wisconsin and on intellectual property development and disclosure. The proposed fee schedule, in particular, is an arbitrary tax on patent applicants. The dramatically increased fees have no rational basis to the services that patent applicants can expect to receive in return. Additional reasons include:

- (a) the fees are set to recover the arbitrary amount of revenue targeted in the President's Budget, \$1.527 billion, so that \$162 million can be diverted to non-PTO programs; and
- (b) due to the extra fee revenue to be collected for diversion, the combined filing, search, examination, and issue fees will be at least twice the fees required today through issue, and this does not take into account the exponential increases for excess claims and maintenance fees.

The US patent system was created to foster creativity and innovation. This purpose is defeated by taxing companies and individuals, in the form of vastly increased patent application fees, and diverting that money to other organizations. This legislation will very likely stifle the incentives to inventors that are central to the patent system which has successfully served this country for over two centuries. As a result, economic and inventive development will be harmed in Wisconsin and in the United States.

As you know, WARF is a non-profit foundation that exists to support research at the University of Wisconsin-Madison. This proposed fee increase will reduce the funds that WARF provides to the university and especially during difficult budget periods, such as now, these WARF funds are extremely important.

I strongly urge that you oppose the United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003, in its entirety.

Respectfully submitted,

Carl E. Gulbrandsen
Managing Director



DISTRICT OF COLUMBIA BAR
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July 15, 2002

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Honorable Howard Coble
Chairman
House Judiciary Subcommittee
Courts, the Internet and Intellectual
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B351A RHOB
Washington, D.C. 20515-6219

Dear Chairman Coble:

Re: The U.S. Patent and Trademark Office Fee
Schedule Adjustment and Agency Reform Hearing

We are writing to you today to express the concerns of the membership of the Intellectual Property Section of the District of Columbia Bar regarding the upcoming U.S. PTO's proposed Strategic Plan and Fee Legislation. Currently, our section includes over 2,300 members; both private practitioners, corporate counsel, government attorneys and academia.

The Strategic Plan appears to be an entirely internal creation of the PTO, formulated without (or with only minimal) input from the IP bar. Its measured 'release' has been undertaken only for the last month or so, with limited scope presentations made to the Boards of INTA, AIPLA, IPO and certain other select groups. It is being presented as being on a 'fast track' and as a 'done deal' and without explicit disclosure of many aspects of the plan which will, if implemented, have a significant effect on the many and varied "customers" of the PTO, both domestic and foreign. The DC Bar IP Section was not included among those privy to the measured release of the Plan and as yet has not had an opportunity to fully consider the Plan's far reaching proposals or the complex revisions and increases of Patent Fees.

Specifically, the DC Bar IP Section comments here only as to the proposal to eliminate the historic restrictions (and oversight of Congress) on prospective increases in Trademark Fees. We oppose the proposed elimination of historic statutory curbs on new and increases in existing Trademark Fees.

Implausibly and self-servingly cast as an efficiency measure, the Statutory proposal for Trademark Fees is tantamount to an "open check book" for the Patent & Trademark Office.

Honorable Howard Coble
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The proposal for this "open check book," rightly or wrongly, presents an appearance of impropriety on the part of the government in the exercise of discretion in enabling the establishment of setting fees of private industry to the possible detriment and added expense to the PTO customer base.

Our review of the trademark aspects of the Strategic Plan suggests that the underlying motivation of the PTO in seeking *carte blanche* to raise and impose new fees on its varied customer base flows from its proposal to institute a 4 track trademark application structure. This is confirmed by a recent and widely assailed Notice of Proposed Rule Making whereby the PTO proposed an incentive based system which would, in its view, tend to discourage the filing of trademark documents on paper.

Questions posed/issues raised by this proposal which are under study by our organization include:

- Does this 4 track system, both as proposed and as administered, satisfy the various Treaty obligations of the U.S.?
- Will the first option, allowing the trademark Applicant to provide the PTO with a likelihood of confusion search, from a USPTO Certified Search service, enhance quality or reduce pending costs? The searches that are currently performed by the Trademark Examining Attorneys are conducted with ease and expertise. Further, the Trademark Office's recent RIF of over 1/3 of the Examining Attorneys negates the need for this proposal.
- Given that the electronic filing will be effected through for-profit, fee charging electronic filing "partners" of the PTO, will the proposed "reduced cost" for electronic filings be wholly illusory or just illusory in part?
- Does the proposed "\$50 (per class) surcharge" for paper filings comport with: 1) law; 2) any reasonable measure of the actual cost of processing a paper submission? In August of 2000, the Deputy Commissioner for Trademark Operations, Robert Anderson, stated on a transcribed record that "...we spent about \$23 getting it (a paper application) ready for examination." Transcript -Trademark Public Advisory Committee Meeting, August 23, 2000, page 47. If that was the cost at that time, how does the cost rise exponentially to "\$50 per International Class," especially where there is a proposal to require paper applications to be submitted in OCR/scannable format such that the paper can be transformed into an electronic file by one simple action? In short, we are studying the conclusion of other organizations submitted in response to the Notice of Proposed Rule Making that such a "surcharge" is *ultra vires* and

Honorable Howard Coble
Page 3

whether it is supportable in fact, both under the current procedures and those proposed.

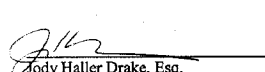
- Will the proposal to "examine electronic filings out of order" (as opposed to the more intuitive FIFO approach) create an unmanageable and confusing system, adding expense for applicants, large and small?
- Is there any reason to believe that the PTO will more effectively administer 4 differing examination systems than its performance with the current single track system, the difficulties of managing which they assert as a basis for the need for three additional systems. In this regard, it is important to know that the current paper system will continue, albeit [hopefully] with more timely and error free electronic data conversion.

The Strategic Plan also contemplates that "Applicants and other parties will be able to ...purchase copies of materials related to applications and registrations not automatically disseminated during normal processing." Plan T-02 @16. It also states: "A Customer Service Center that will consist of ...a retail operation for the direct sale of trademark material to the public [will be operated]."

The DC Bar IP Section is studying how these proposals are consistent with the general thrust of "The Plan," namely, contracting out functions to private industry and focusing on the core legal functions of the trademark process. Since the "open check book" requested by the PTO would be used to further these initiatives we also oppose the lifting of historic curbs on Trademark Fees insofar as such would enable these initiatives which appear to be contrary with some of the stated premises and core purposes of the Plan itself.

We thank you for time and assistance in this important matter.


Kathleen Cooney-Porter, Esq.
Co-Chair
Steering Committee
Intellectual Property Law Section
District of Columbia Bar


Jody Haller Drake, Esq.
Trademark Chair
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cc: Blaine Merritt, Esquire

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July 25, 2002

Honorable Howard Coble, Chairman
Honorable Howard Berman, Ranking Member
House Subcommittee on the Courts, Intellectual Property and the Internet
Committee on the Judiciary
B-351A RHOB
Washington, DC 20515

re: July 18 Hearing on USPTO Fee Schedule Adjustment and Agency Reform

Honorable Chairman and Ranking Member:

I appreciate this opportunity to submit comments regarding issues raised in the recent hearing. As a professional patent and trademark researcher for over twenty years, I am in daily contact with both the professional IP community, and with examiners and management at the USPTO. After many discussions with members of both groups, I wish to address two issues: 1) the proposal introduced to separate the Search function from the Examination process; and 2) the process by which most of the proposals in the Restructuring Plan have been derived.

Although the patent system is one with very powerful competing interests on many levels, at its core is a very studious, detailed and technical process, performed by highly educated examiners and researchers who take great pride in their work. The quality of the patent system very much depends on their continued dedication. The absolutely unexpected proposal to separate the Search and Examination functions is potentially the most destructive plan yet proposed by management, in view of concerns over patent quality. With fewer than 300 trained, experienced researchers in the private sector, the capacity does not exist to accommodate even ten percent of the anticipated additional workload now performed by the more than 3,200 examiners.

Examiners realize that outsourcing searches will mean higher production quotas for them. If the proposal is enacted, a number of examiners have acknowledged their plans to leave the PTO and form private search corporations, with expectations of higher incomes and less stress. The resulting loss of experience and expertise in the examination process would be devastating.

The second issue regards the process involved in creating the Restructuring Plan. Despite claims by management that the Plan has been developed in open discussions, with contributions from many sectors, the perception and often-expressed complaint is that it was developed in secret. The evolution of a more effective USPTO would greatly benefit from a more open discussion

Re: July 18 Hearing on USPTO Fee Proposal
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of the issues and possible solutions, with a goal of not only inclusion of all participants and their ideas, but also the perception by professional employees and the IP community that they are part of the process.

Thank you again for the opportunity to comment.

Respectfully submitted,

Randy Rabin, President
PatentArts, Ltd., LLC

PREPARED STATEMENT OF LEEARL A. BRYANT

INTRODUCTION

The over 235,000 U.S. members of the Institute of Electrical and Electronics Engineers, Inc. represented by IEEE-USA include inventors, innovators, designers, independent entrepreneurs, small business owners, and employees of firms that acquire, license and exploit intellectual property. Their collective efforts promote our nation's prosperity, security, and competitiveness by fostering technological innovation. IEEE supports the engineering process of creating, developing, integrating, sharing and applying knowledge about electronics, information technologies and physical sciences for the benefit of the profession and humanity.

IEEE's U.S. members are among the most frequent users of the USPTO, and therefore we have a compelling interest in ensuring that legal principles governing patent policy are consistent. By virtue of the practical experience of its members, the IEEE-USA respectfully believes that its views can assist this committee in evaluating the effect of the strategic plan on technical innovation, especially by independent inventors and small businesses. We are deeply concerned about proposed changes in the patent system that could potentially jeopardize our members' abilities to secure the patent protection they need, the lack of which would affect our country's competitiveness, economy, and technological advancements.

GENERAL

Intellectual property is a significant and growing component of our national economy. The Information Technology (IT) sector accounts for an estimated 8.2 percent of our gross domestic product and accounts for one-quarter of the economic growth in the American economy. This is just one of many sectors which rely heavily on patent protection and with which many IEEE-USA members are involved. The IEEE-USA believes that our nation's global competitiveness and our economy are directly tied to the innovations made by independent inventors and inventors employed by small businesses. The success of many startups can be traced to a handful of inventors obtaining funding due in great part to being able to protect their intellectual property. As such, the voice and concerns of the independent inventor and of small business entities must be considered at all stages of developing and implementing changes to the patent process.

The quality of the patents issuing remains an important concern of the IEEE-USA. We appreciate the USPTO staff's ongoing efforts to continuously improve the quality of their work product. We support the Strategic Plan's principle to improve the quality of the USPTO while reducing pendency, such as efforts to enhance successful, appropriate pilot programs and extend them throughout the USPTO.

The IEEE-USA understands the importance of a global patent classification system and harmonizing our patent system with the rest of the world to gain easier and less expensive patent protection around the world. It is important when changing U.S. patent policies for harmonization that we continue to encourage innovation and maintain U.S. competitiveness. We support the Strategic Plan's efforts to achieve this.

Fees and Costs to Obtain Patent Protection

IEEE-USA believes that the USPTO should be fee-supported, with flexibility in setting fees subject to the oversight of Congress and following proper administrative procedures. The IEEE-USA has opposed and continues to oppose diversion of fees paid to the USPTO for use by other agencies. If all of such monies were used for the USPTO, instead of being diverted by Congress as in the past, IEEE-USA believes no fee increase would be necessary. Taxing patentees beyond the costs of the USPTO yields results contrary to technical innovation in the U.S.

If fees need to be adjusted to help support the USPTO's operation, the IEEE-USA believes that Congress must take into account the special circumstances presented by the independent inventor and the small business entity when considering changes to the fees, the fee structure, and when imposing other costs to receive patent protection. The proposed fee changes will adversely affect individual inventors and small business entities to a far greater percent than other businesses. Additionally, we are very concerned that the 4-tier application option proposed would discriminate solely on the basis of one's wealth.

The IEEE-USA continues to support reduced fees for the independent inventor and small business entity. We believe that all Federally mandated fees and costs to file, examine, issue, and maintain patents must be reduced for the independent inventor and small business entity.

IEEE-USA further believes that the functions of the USPTO that benefit the public, such as making information available to all on the Internet, should be funded through general tax revenues as this is a part of the Constitutionally mandated function of the USPTO for the public good.

The Number of Patent Claims

The complexity of technology has changed dramatically since the first patent was issued, let alone over just the last 100 years. Few claims were required by Edison in order to obtain patent protection for the light bulb, but today a gigabit Ethernet switch that optimizes data transfer could not be adequately protected by just a few claims. The complexity of many of today's discoveries requires far greater skills, knowledge and sophistication to delineate and claim an invention. The U.S. Supreme Court recently recognized in *Festo v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, et al. that language remains an imperfect fit for invention.⁶ It is therefore more and more difficult to adequately describe today's complex inventions and to differentiate them from previous inventions without the use of multiple claims.

Members of the IEEE-USA will find many of their inventions cannot be adequately and fairly claimed for a reasonable fee within the punitive limitations as set forth in the proposal. Recent U.S. Supreme Court and lower Federal Court cases essentially mandate the use of many diverse forms of claims and claiming strategies. As just one example, an inventor of even a simple software invention must use multiple independent claim formats to adequately claim the invention. A typical claim, to have adequate commercial coverage in the relevant marketplace, must practically be presented as, among other forms, apparatus claims, method claims, data structure claims, computer-readable medium claims, user interface claims, propagated signal claims, and software-related business method claims. Although this multiplicity of claim formats for similar subject matter does not significantly increase the examination costs of the USPTO, the current proposal would harshly punish, and thus practically limit, the scope of protection available to inventors, especially to those of moderate means.

The IEEE-USA contends that provisions that discourage inventors from adequately protecting their inventions, such as the proposed punitive fees and a fee structure designed to limit the number of claims, would be at odds with the needs of entrepreneurs whose livelihood depends on patent protection and this aspect will diminish their ability to obtain dependable protection, much less defend it, within their budget.

Outsourcing Searches

The patent examination process is an ongoing negotiation between the applicant and the examiner, often with the examiner refining and re-searching the prior art in combination with the applicant making amendments to the claim language.

The IEEE-USA believes that there are both short and long-term consequences to outsourcing searches. In the short term, the IEEE-USA is concerned that financial incentives to independent inventors and small businesses will be impacted. Many independent inventors also currently prepare and file their own applications, and perform all of their own searches at the USPTO, depository libraries and elsewhere, all in an effort to save money. Searches through commercial vendors are effectively a part of the application costs and it is unlikely that legislation would place pricing controls on commercial vendors.

The IEEE-USA is also concerned that there could be long-term unexpected consequences to outsourcing searches. There may be a discontinuity between the search and the examination. Thus, not only might outsourcing affect the quality of patents issuing, but it might also have an unanticipated effect years later in the courtroom during patent litigation where the third party's search methods and quality are challenged. IEEE-USA recommends that prior to final implementation this be thoroughly investigated via preliminary studies combined with studies of the European Patent Office's results of their outsourcing between offices. Successful outsourcing must address these concerns and implement reasonable checks and balances to assure adequate protections to the inventors and the patenting process.

Other

Further, IEEE-USA supports efforts to bring the USPTO into the 21st century such as electronic filing. We strongly believe that electronic interactions with the USPTO (e.g. electronic filing, information disclosures, application tracking, searches, etc.) must use open interoperable interfaces and not use closed or proprietary interfaces. We believe that such an open structure and interoperability will allow market forces to generate the best and lowest cost solutions.

Conclusion

The IEEE-USA believes that some of the changes in the USPTO's 21st Century Strategic Plan, such as those aimed at reducing cost to the inventor through harmonization and electronic filing, are positive and will improve the system. However, some of the other changes could damage the process and particularly could harm individual inventors and companies that rely on the protection of patents to maintain competitiveness in the global markets. The IEEE-USA believes that the USPTO should continue to find creative ways of distributing their efforts, such as outsourcing of searches, while taking into account the issues we raised.

The IEEE-USA looks forward to assisting the USPTO and Congress in your efforts to improve the efficiency and quality of the patenting process.

