Calendar No. 658

96TH CONGRESS
2d Session
SENATE
REPORT
No. 96-617

PATENT REEXAMINATION

REPORT

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ON

S. 1679

MARCH 4 (legislative day, JANUARY 3), 1980.—Ordered to be printed

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Mr. BAYH, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 1679, as amended]

The Committee on the Judiciary, to which was referred the bill (S. 1679) to amend the patent laws, title 35 of the United States Code, having considered the same, reports favorably thereon, with an amendment, and recommends that the bill do pass.

I. PURPOSE

One of the greatest concerns facing innovative businesses who must rely on U.S. patents to protect their new products and discoveries is the threat that their patents might be invalidated in court if the Patent and Trademark Office (PTO) missed pertinent patents or printed materials during the course of patent examination. This is not an idle fear because by the PTO's own estimate from 2 percent to 28 percent of the patents in every patent subclass are missing from the files. Even with the best examiner working under the best of circumstances there will still be a doubt that some of the materials that should have been considered before the patent was issued could have been missing from the files. There is also a tremendous body of technical data printed every year that can also be pertinent to a patent application. It is not practical to expect the patent examiner to review all of this material. This material can be the basis of a civil suit to invalidate the patent, a suit which can be extremely lengthy and costly and which takes up more and more of the time of our district courts.

It is the purpose of S. 1679 to bring these uncited patents and printed publications to the attention of the PTO for a decision on whether an issued patent is valid; whether its claims should be narrowed, or whether it should not have been issued. Under reexamination, an issued patent's claims could ever be broadened.

amined, but the expectation of the Committee is that the PTO will normally be asked to reexamine patents before litigation.

Overall, about 50 percent of the patents that are challenged in court are found to be invalid. However, when the PTO and the courts have considered the same prior art, a study has shown that the courts and the PTO agree at least four-fifths of the time. The courts and the PTO appear to apply the same standard of patentability. The problem then is to insure that the patent examiner has the materials needed for a complete examination and patent reexamination will help to get these materials before him.

The committee intends that the PTO be allowed to charge for full recovery of fees so that reexamination would not be an additional burden on the taxpayers.

Commissioner of Patents and Trademarks Sidney A. Diamond, in his testimony of November 30, 1979, to the committee, indicated his support for patent reexamination and his confidence in the ability of the Office to carry it out. Commissioner Diamond told the committee: "Reexamination is a long overdue modernization of a patent system struggling to promote innovation in a Nation facing economic problems that technology must help solve." This view was seconded by former Commissioner Donald W. Banner in his testimony before the committee, who added that former Commissioners Gottschalk and Dann also supported the reexamination provisions contained in S. 1679.

II. Text of Senate Bill S. 1679

A BILL To amend the patent laws, title 35 of the United States Code

Be it enacted by the Senate and House of Representives of the United States of America in Congress assembled, That this Act may be cited as the "Patent Law Amendments of 1979".

Sec. 2. (a) Title 35 of the United States Code, entitled "Patents", is amended by inserting immediately after chapter 29 the following:

"CHAPTER 30—PRIOR ART CITATIONS TO PATENT OFFICE AND REEXAMINATION OF PATENTS

"Sec.

"301. Regulations established by Commissioner of Patents.
"302. Citation of art.
"303. Request for examination.
"304. Determination of issue by Commissioner of Patents.
"305. Reexamination ordered by Commissioner of Patents.
"306. Response or amendment by patent owner.
"307. Appeals.
"308. Certification of patentability; unpatentability and claim cancellation.
"309. Reliance on art in court.
"310. Stay of court proceedings to permit office review.

"§ 301. Regulations established by Commissioner of Patents

"The Commissioner shall establish regulations for—

"(1) the citation to the Office of prior art patents or publications pertinent to the validity of patents; and

"§ 305. Reexamination ordered by Commissioner of Patents

If, in a determination made pursuant to subsection (a) of section 304, the Commissioner finds that a substantial new question of patentability affecting a claim or claims of the patent is raised by consideration of the prior art patents or publications that have been cited in relation to the patent according to section 302 of this chapter, he shall order a reexamination of the patent for the resolution of the question, and shall proceed to resolve it as though the claim or claims involved were present in a pending application. The patent owner shall be given a reasonable period after the filing of the reexamination order within which he may file a statement on such question for consideration in the reexamination. The patent owner shall serve a copy of such statement on any person who has requested examination according to section 303 of this chapter and such person shall have the right, within a period of two months from such service, to submit a reply to the patent owners statement. Any reexamination proceeding including appeals to the Board of Appeals, shall be conducted with special dispatch and shall be completed within one year within the Office, unless the Commissioner determines on a case-by-case basis that the one-year period is not sufficient.

"§ 306. Response or amendment by patent owner

"The patent owner shall be provided an opportunity in any reexamination proceeding under this chapter to amend any claim of his patent in order to distinguish the claim from the prior art patents or publications cited according to section 302 of this chapter, or in response to a decision adverse to the patentability of the claim, but no amendment enlarging the scope of a claim shall be permitted in a reexamination proceeding under this chapter.

"§ 307. Appeals

"The owner of a patent involved in a reexamination proceeding under this chapter may seek court review of a final decision in such proceeding adverse to the patentability of any claim, or amended claim, of the patent in accordance with chapter 13 of this title.

"§ 308. Certificate of patentability; unpatentability and claim cancellation

"When in a reexamination proceeding under this chapter the time for appeal has expired or any appeal proceeding has terminated, the Commissioner shall issue and publish a certificate canceling any claim of the patent finally determined in such proceeding or on appeal therein to be unpatentable, confirming any claim of the patent so determined to be patentable, and incorporating in the patent any amended claim thereof so determined to be patentable. Any such

"(2) The court shall not grant a stay of the proceedings on the basis of a motion brought under paragraph (1) if the proceeding or motion relates to a temporary restraining order or preliminary injunctive relief, or any other protective order necesary to protect the rights of the parties.

"(b) The court, on motion and upon such terms as are just, may at any time stay the proceedings in a civil action in which the validity of a patent is in issue for a period sufficient to enable the moving party to cite to the Office newly discovered additional prior art in the nature of patents or publications and to secure final determination of a request for reexamination of the patent in the light of such additional prior art, provided the court finds that such additional prior art, in fact, constitutes newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay of such proceedings that was or could have been secured according to subsection (a) of this section.".

(b) The table of chapters for title 35, and for part III of title 35, of the United States Code, are amended by inserting immediately after the item relating to chapter 29, the following:

"Chapter 30—Prior Art Citations to Patent Office and Reexamination of Patents".

III. Legislative History

President Johnson's Commission on the Patent System in 1966 identified six objectives that needed to be reached to improve the present patent system. One was to raise the quality and reliability of U.S. patents. Another was to reduce the expense of obtaining and litigating a patent. These objectives were combined in a reexamination procedure that was part of the 1967 Patent Reform Act. There was general agreement on the reexamination provision, but because of other controversial sections of the bill it was never passed. Subsequent comprehensive patent reform bills such as S. 4259 in the 93rd Congress and S. 214 and S. 2255 in the 94th Congress also contained reexamination provisions. The present bill, S. 1679, has been limited solely to the question of reexamination because it is one area where the vast majority of patent and business experts agree that a serious problem exists in the present patent system which can be solved in a relatively simple manner.

President Carter in 1979 directed that a Domestic Policy Review of Industrial Innovation be undertaken to determine why the U.S. is experiencing an innovation and productivity lag. This effort involved over 100 inventors, businessmen, lawyers, and research directors.

The Domestic Policy Review's Advisory Subcommittee on Patents and Information Policy issued its findings on December 20, 1978. The first recommendation of the subcommittee was to take the necessary steps to upgrade the Patent and Trademark Office. The second recom-

the patent was found to be too broad, the patent holder would have the opportunity of narrowing the patent claims. The Commissioner could also invalidate the issued patent. Such an action would be subject to appeal by the patent holder.

Under S. 1679, the courts would still have the option of accepting patent validity cases if they chose to do so, but this bill would give an inexpensive alternative to costly legal actions. Patent reexamination should therefore help to cut down on the number of patent cases which go into litigation.

A. TESTIMONY OF COMMISSIONER OF PATENTS AND TRADEMARKS SIDNEY A. DIAMOND TO THE SENATE COMMITTEE ON THE JUDICIARY

In his November 30, 1979 testimony on patent reexamination, the thinking of the Administration and of the Patent and Trademark Office was presented by Commissioner of Patents and Trademarks Sidney A. Diamond. Mr. Diamond told the committee:

> Let me begin by stating that the Administration wholeheartedly supports the principle of legislation broadening the authority of the Patent and Trademark Office (PTO) to reexamine patents.
>
> As part of President Carter's Domestic Policy Review of Industrial Innovation (DPR), an assessment was made of the United States patent system as it relates to the innovation process. The DPR found that patents serve important functions in the innovation process. First, they provide an inventor with an incentive—a limited monopoly in his invention. Second, the exclusive rights provided by a patent can stimulate a firm to make the often risky investment that is required to bring an invention to market. Finally, patents provide an important method for the disclosure to the public of information about inventions and their uses.
>
> Indeed, the patent system was established to provide certain incentives for the conduct of activities critical to our economic and technological prosperity—the invention of new and improved technology, the disclosure of this technology to the public, and the investment in its commercialization. Whether or not these activities will take place depends in large part on the strength of protection that a patent provides.
>
> As the DPR recognized, there is a problem today with respect to the uncertain reliability of patents and the time and expense required to resolve that uncertainty through litigation. Uncertainty arises because pertinent prior patents and printed publications—the most significant part of what is referred to as prior art by patent lawyers—often are discovered only after a patent has issued and become commercially important.
>
> Under the present law, only a patent owner can obtain a reevaluation by the PTO of patent validity on the basis of newly discovered prior art. The PTO itself cannot initiate such a reevaluation; it must await a request by the patent

is inevitable that some patents of questionable validity will issue.

Reexamination is a long-overdue modernization of a patent system struggling to promote innovation in a Nation facing economic problems that technology must help solve. The 1967 President's Commission on the Patent System recommended a reexamination system. From 1967 until today, reexamination has been included as an important feature of many patent law revision bills. The Department of Commerce has continuously supported the establishment of a reexamination system.

S. 1679 would establish a system whereby any person would be able to bring to the attention of the PTO prior patents or printed publications bearing on the validity of any claim of a patent at any time during the term of the patent grant. At the same time or later during the term of the grant, that person or anyone else would be able to request the PTO to reexamine the patent on the basis that the information cited raises a substantial new question as to patentability. In the absence of such a request, the Commissioner of Patents and Trademarks could initiate a reexamination upon his or her own volition. Thus, S. 1679 would establish a system whereby a patent owner, a member of the public, or the Office itself can quickly and inexpensively reduce uncertainty as to the validity of a commercially significant patent raised by newly discovered prior art.

By limiting reexamination to a consideration of prior patents and printed publications, the PTO would be given a task that it can perform effectively at a reasonable cost. We would expect to use our most highly trained and experienced examiners for reexamination proceedings because they will be somewhat more complex than those for a typical patent application. We would expect between 1,000 and 3,000 reexamination proceedings each year.

Under S. 1679, a court could stay proceedings in any litigation in which the validity or infringement of a patent is in question in order to permit reexamination by the Office. This opportunity for patent reexamination would enable the court hearing the litigation to rely on the expertise of the PTO.

S. 1679 would not affect any substantive criteria for granting a patent. It merely would provide a simple, comparatively inexpensive and expeditious procedure for testing the validity of patents against newly discovered prior art. Where patent claims are too broad, reexamination would permit the patentee to amend them so that they become commensurate with the scope of his invention. Unpatentable claims would be purged from the patent.

Most courts accord to a patent the statutory presumption of validity only with respect to prior art cited by or to the PTO in the course of its prosecution. The sole means for obtaining a PTO evaluation of later discovered patents or printed publications is through reissue proceedings which can

ceedings within the PTO suggests that, in most cases, judges will choose to avail themselves of the reexamination process.

In addition, in providing for the amendment of patent claims by the patent owner during the course of reexamination, consideration should be given to the desirability of protecting persons who act in reliance on the claims of the patent as initially issued. Without such protection, a competitor might be judged an infringer where the reexamination proceeding converts an invalid claim into a valid one of the same or more limited scope.

These are some of the issues that come to mind as requiring further thought by the Administration and the Congress as we work together to create a reexamination system. Creation of that system may be the single most important innovation needed in our patent system.

Mr. Diamond stated in reply to questions from Senator Bayh that the Patent and the Trademark Office estimated that approximately 1,000 to 3,000 reexaminations would be performed a year. This would require an additional 25 to 100 employees. The Office would be charging from $1,000 to $1,500 per reexamination to meet this expense. The fact cannot be overstressed that the current levels of manpower and funding of the PTO are not sufficient to allow the PTO to efficiently operate and perform the responsibilities it now has. Enactment of this reexamination procedure without the funds to implement it will not only cause this new procedure to fail but will undermine the work of the PTO in other areas.

It is the expectation of the committee that the present reissue proceedings in the PTO will be reduced when S. 1679 is enacted.

B. EFFECT OF REEXAMINATION ON THE COURTS

Chief Judge Howard T. Markey of the U.S. Court of Customs and Patent Appeals, in his address of September 17, 1979, to the Minnesota Patent and Trademark Association, said that in 1978 there was a backlog of 3,789 patent cases clogging the courts. This represented an increase of 18.3 percent over the previous year.

A 1974 private study, *Patent Validity—A Statistical and Substantive Analysis*, found that of the litigated mechanical patents "uncited patents were the most important source of new information used by the courts, being used in 19 out of 23 (83 percent) district court decisions and 15 of the 18 (83 percent) court of appeals decisions." [2] Thus a great deal of court time is being taken up with questions that could be handled by the Patent Office. Patent reexamination should substantially reduce the number of these cases that are being filed with the district courts.

All indications are that the judges would welcome this help. Judge Giles S. Rich, the seniormost judge of the Court of Customs and Patent Appeals, in speaking to the American Patent Law Association in Washington, D.C. on October 3, 1975, said:

[2] G. Koenig, "Patent Validity—A Statistical and Substantive Analysis," C. Boardman, publisher, New York, N.Y., 1974, pp. 5–51.

Chapter in Worcester, Mass., and president of a small business, told the committee:

> If we don't see some solid and real strength put into the patent system, we will have no choice but to recommend that our membership not patent their products. Is there patent protection if one's patent protection is only as good as one's financial ability to protect? Most independent inventors have a net worth of less than $40,000. It cost us in our simple case, more than $75,000 to get to court and we lost.
>
> You have heard the expression "mad inventor." The image is of an inventor madly and passionately at work with his project. He will go to any extreme to help get his product and project off the ground. Today the "mad inventor" that we see in the Inventor's Club of America is angry and frustrated with a system that isn't helping him in his work. It is a system that hinders his attempt to get his product to market.

Mr. Robert B. Benson, who in addition to being the Chairman of the Domestic Policy Review's Subcommittee on Patents and Information Policy is also the patent director for the Allis-Chalmers Corporation, said:

> And I would like to just mention something in this connection with corporate spending decisions.
>
> Corporations are run by professional managers in most instances and their performance is measured just like everybody else, by a Board of Directors or some other corporate officer. What these corporate managers put in a profit column is a very significant factor in the evaluation of their performance. Since they only have so much money to spend, they are going to spend it where they get the greatest return.
>
> And the climate for investing in research and development and new product development is not as attractive today as it was years ago because of this perceived unreliability of the patent grant.
>
> We think, and it came out very clearly in our committee, that there is a correlation between the decline in our country's technological leadership position in the world and this lack of confidence in the patent grant in the United States.

Mr. Benson also told that committee that whereas 20 years ago it was routinely possible to obtain a bank loan on the strength of a patent, this is no longer possible.

The business witnesses all agreed that patent reexamination would be a desirable step in addressing the problems of the present patent system, and would have a favorable influence on American innovation.

D. CONCLUSION

One of the greatest problems in the present patent system is the inability of the patent examiner to have access to all of the relevant prior art before a decision is made on granting a patent application. The fact that the discovery of previously uncited prior art can result in expensive patent invalidity suits contributes to the present lack of

validity in most instances. This will be especially helpful to the independent inventor and to the small business which many times finds itself precluded from adequately defending or attacking patents because of prohibitively expensive legal costs. It should be remembered that the American consumer must ultimately pay for these expensive court battles which are passed along to the public through higher prices.

Patent reexamination will help to restore confidence in the worth of American patents and assist our inventors to meet the challenges of the future.

V. Section-by-Section Analysis

Sec. 301.—Provides the Commissioner of Patents and Trademarks with the authority to establish rules and regulations necessary to implement the reexamination procedures contained in the Act.

Sec. 302.—States that any person may cite to the Patent and Trademark Office (PTO) prior patents or publications which may have a bearing on the claim of an issued patent.

Sec. 303.—States that any person may use the materials cited to the PTO under Sec. 302 as the basis for a reexamination request. This request must be accompanied by a fee which will be established to permit full cost recovery by the PTO. Unless this request is made by the patent holder, the owner of the patent which is in question will be notified and will receive a copy of the request for a reexamination.

Sec. 304.—Within 90 days of the filing for a reexamination, the Commissioner shall determine whether a substantial new question has been raised about the patentability of the concerned patent which has not previously been considered by the PTO. The Commissioner can dismiss the request at this point if no such new question is found to have been raised.

Sec. 305.—In those cases where it is determined that a significant new question has been raised about the patent, the patent owner will be given a reasonable amount of time to reply to this new material which is being used to challenge the patent. The patent challenger will be provided with a copy of the patentee's reply and can comment on it to the PTO.

The PTO is charged with processing patent reexamination requests with special dispatch.

Sec. 306.—The patent owner will be permitted to narrow the claims of the questioned patent during reexamination, but cannot broaden this claim.

Sec. 307.—The patent owner can appeal any decision reached by the PTO under the reexamination procedure.

Sec. 308.—When the time for appealing the PTO's decision has expired or the appeal has been terminated, the Commissioner shall issue and publish a certificate canceling any claim of the patent found to be unpatentable, or confirming the patentability of the claim of the patent if it is upheld. The PTO will also include in such a certificate any amended claims which are found to be patentable.

Sec. 309.—No patent or printed publication may be relied on in court as evidence of nonpatentability unless it has been subjected to reexamination, or unless the court, upon motion, concludes that reexamination is unnecessary.

1. Bill number: S. 1679.

2. Bill title: Patent Law Amendments of 1979.

3. Bill status: As ordered reported by the Senate Committee on the Judiciary on February 19, 1980.

4. Bill purpose: S. 1679 would allow the Patent and Trademark Office (PTO), at the request of patent holders, challengers, or the Commissioner of Patents, to reexamine patents using materials and patents previously unknown or missing. The PTO would then issue a certificate as to the status of the patent after reexamination. The procedures are designed to be self-supporting, allowing the PTO to recover all costs associated with this activity.

5. Cost estimate (By fiscal years, in millions of dollars):

	1981	1982	1983	1984	1985
Patent and Trademark Office (function 370):					
Estimated authorization level	0.9	1.4	2.1	2.3	2.5
Estimated outlays	.8	1.4	2.0	2.2	2.4
Estimated revenue	−.9	−1.4	−2.1	−2.3	−2.5

The costs of this bill fall within budget function 370.

6. Basis of estimate: It is assumed that the activities authorized in S. 1679 would begin on or around October 1, 1981. It is anticipated that the number of patent applications for reexaminations to the PTO will be limited by the cost involved and the potential for commercial development. Based on rates currently available in foreign countries for similar procedures, it is estimated that the number of appeals will be approximately 1,000 in fiscal year 1981, increasing to 2,000 by fiscal year 1983, and remaining relatively stable thereafter. Although S. 1679 does not specifically authorize funding for this activity, it is estimated that additional staff will be required to handle the reexamination procedures.

Based on PTO data, it is estimated that the average cost per employee, including overhead and benefits, would be approximately $40,000 in fiscal year 1981. Assuming approximately 30 hours per reexamination, plus clerical support, it is estimated that approximately 55 appeals could be reviewed annually by the professional staff. The estimated activity level and costs are summarized below (by fiscal years):

	1981	1982	1983	1984	1985
Number of appeals processed	1,000	1,500	2,000	2,000	2,000
Number of employees required	22	33	44	44	44
Average cost per reexamination	$880	$960	$1,050	$1,135	$1,225

It is assumed that the full amount required by the PTO for salaries and expenses would be recovered by fees set by the Commissioner of Patents at the beginning of the fiscal year and adjusted annually for inflation and anticipated workload. In addition, it is assumed that fees would be based on average costs, as determined by the PTO, and included with the application for reexamination. It is assumed that the receipts would be deposited in the general fund of the Treasury, as is currently the case for other PTO activities. Outlays are estimated to be 90 percent the first year and 10 percent the second year.

96TH CONGRESS } HOUSE OF REPRESENTATIVES { REPT. 96-
2d Session } { 1307, Part 2

PATENT AND TRADEMARK LAW AMENDMENTS

SEPTEMBER 23, 1980.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BROOKS, from the Committee on Government Operations, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 6933]

[Including cost estimate of the Congressional Budget Office]

The Committee on Government Operations, to whom was referred the bill (H.R. 6933) entitled "To amend the patent and trademark laws," having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the bill as reported by the Committee on the Judiciary) are as follows:

Page 43, line 18, strike out "six months of" and insert in lieu thereof line 2 on page 46 and redesignate the succeeding section accordingly.

Page 43, line 18, strike out "six months of" and insert in lieu thereof "two years after".

Page 43, line 17, strike out "(a)" and on page 44, beginning on line 4, strike out all of subsection (b) through line 9.

Page 44, beginning on line 10, strike out all of section 11 through line 2 on page 46 and redesignate the succeeding section accordingly.

JURISDICTION UNDER SEQUENTIAL REFERRAL

H.R. 6933 was reported to the House by the Committee on the Judiciary on September 9, 1980. It was then sequentially referred to the Committee on Government Operations for consideration of provisions of the bill and amendment which fall within the jurisdiction of the committee. These provisions deal with Federal procurement generally and matters involving reorganizations in the executive branch. The

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ber of congressional enactments relating to patents for individual programs or agencies. It also called for certain studies and reports and would remove the Patent and Trademark Office from the Department of Commerce and set it up as an independent agency.

The Committee on Government Operations does not agree with those provisions of the bill which would remove the Patent Office from Commerce; or require the Comptroller to make a study of the possibility of merging the Copyright Office, now in the Library of Congress with the Patent Office, and recommends that these provisions be deleted from the bill. It also disagrees with the provision to require the Commissioner of Patents to report within a period of six months on a plan to computerize data in the Patent Office. The committee recommends that a period of two years be given for such a report.

Committee Action and Vote

The Committee on Government Operations at a duly called meeting on September 23, ordered reported H.R. 6933 with amendments by a vote of 32 ayes and 0 noes.

Hearings

Hearings on H.R. 6933 were held by the Subcommittee on Legislation and National Security on September 16 and 17, 1980. Testimony was received from Philip M. Klutznick, the Secretary of Commerce; from Admiral H. G. Rickover, Deputy Commander for Nuclear Power, Naval Sea Systems; Daniel J. Boorstin, the Librarian of Congress; Karen H. Williams, Administrator for Federal Procurement Policy, Office of Management and Budget; and Ky P. Ewing, Deputy Assistant Attorney General, Antitrust Division, Department of Justice.

Differing views were presented by these witnesses, all of whom were high ranking and responsible officials of the Government. Their testimonies raised questions which merit careful study by the Congress.

Discussion

The Committee on Government Operations recognizes the necessity of making improvements in the operation of the Patent and Trademark Office. The issuing of patents is an important part of our efforts to keep America in a position of technological leadership. Every effort should be made to encourage our inventors and creators to develop innovative products. Many complaints have been made about the Patent Office and the service it renders. Every reasonable step should be taken to speed up its work and reduce the backlog of applications not yet acted upon.

The Committee, however, does not feel that all of the proposals made in the legislation are needed in the manner presented. In fact, some may be counterproductive.

COPYRIGHT OFFICE STUDY

One proposal in the original bill calls for a study by the Comptroller General analyzing the efficiency of the Patent and Trademark Office, the Copyright Office, and the Copyright Royalty Tribunal. It seems to

As experience has shown, any reorganization requires a temporary slowdown in operations and procedures until the new organization has been put into effect. There is no way to estimate how long such a slowdown could take.

An independent PTO will not necessarily in itself bring about an increase in the number of patent examiners nor in the amount of funding available to the Office, but steady improvement in the efficiency of the agency will produce the climate to obtain greater resources. The committee, therefore, recommends that the provision in the bill making the Patent and Trademark Office an independent agency be deleted and the Office remain in the Department of Commerce.

DEVELOPMENT OF A COMPUTERIZED DATA AND RETRIEVAL SYSTEM

H.R. 6933. as amended, requires the Commissioner of the Patent and Trademark Office to identify and, if necessary, develop a computerized data and retrieval system. The committee believes such a system is essential if the Patent Office is to effectively fulfill its responsibilities under this legislation.

In 1978, the Committee on Government Operations conducted a review of the Patent Office's management and use of computer resources. That study revealed that the Patent Office had failed to apply modern technology to its operations and that serious technical and operating problems continued to plague the agency. Deficiencies were especially apparent in the Patent Office project to develop a computerized data and retrieval system.

In the mid-1960's, the Patent Office prepared a plan to have delivered a computerized system which would electronically prepare patents for printing and which would prepare a data base of approved patents which ultimately would be retrievable for patent searches.

In order to implement the Patent Office's plan, a contract was awarded to International Computaprint Corporation (ICC) in April of 1970 for one year, with two one-year options, at a cost of $10,053,-766.71 per year.

Although the plan called for the Patent Office both to assume operation of the work performed by the contractor and to develop a retrieval system for patent searches, the Patent Office failed to do either. By 1978, the Patent Office had contracted with ICC for over seven years and during this period had granted the contractor nine extensions on a noncompetitive, sole-source basis. Overall, the Patent Office has paid this contractor in excess of $32 million even though the data base, as required under the original contract, is incomplete. In addition, the Patent Office's ill-fated attempts to develop a retrieval system has cost millons.

On three separate occasions, the Patent Office ostensibly sought to compete the data base contract work. Each time the effort was aborted. These actions raised serious questions about the legality and propriety of both the Commerce Department's and the Patent Office's management of this project, particularly (a) the methods by which the Patent Office sought to implement this plan, (b) the extent to which the original objectives of the plan have been met, and (c) the extent to which the actions of the Patent Office and Commerce Department have been legal and proper.

SUBCHAPTER I—CONTRACT INVENTIONS

Section 382. Contract inventions; reporting

Section 382 definies "contract inventions" and sets forth a contractor's responsibility with regard to a contract invention.

Subsection (a) defines "contract inventions" as "inventions made in the course of or under Federal contracts."

Subsection (b) requires that all contractors provide the responsible Federal agency with timely reports on each contract invention containing sufficient technical information to inform the Government as to the nature of the invention and a list of each country, if any, in which the contractor elects to file a patent application.

The Government is prohibited from publishing or releasing these reports until the earlier of one year from receipt of the invention disclosure or the contractor has had a reasonable time to file a patent application; the Government also must withhold such information from other records or reports.

Subsection (c) provides that the responsible agency may deprive a contractor who unreasonably fails to file the reports required by subsection (b) of any or all of the rights it otherwise would have under subchapter I pertaining to the contract invention for which such report has been unreasonably withheld.

Section 383. Allocation of rights—small businesses and nonprofit organizations

Subsection (a) provides for the acquisition of title to contract inventions by contractors which are either a small business or a nonprofit organization. They would acquire title in each country listed under section (b)(2) of section 382 in which they filed a patent application within a reasonable time; their title would be subject to the Government's minimum rights under section 386 and to march-in rights under section 387.

Subsection (b) provides for acquisition of title to contract inventions by the Government in each country in which a small business or nonprofit organization elects not to file a patent application or fails to file within a reasonable time.

Section 384. Allocation of rights—other contractors

Subsection (a) provides that a contractor that is not a small business or nonprofit organization will have four and one-half years from the filing of an invention report under section 382(b) to select one or more fields of use which it intends to commercialize or otherwise achieve public use under an exclusive license. During the four and one-half year period the contractor will have temporary title to the invention, subject to the Government's right under the Act.

Subsection (b) provides for the contractor to receive an exclusive license in each described field of use if it files a United States patent application within a reasonable time. The contractor's license is subject to the Government's minimum rights under section 386 and march-in rights under section 387.

Subsection (c) provides that the contractor will automatically acquire an exclusive license for each described field of use by operation of law ninety days after providing the responsible agency with the field of use report required by subsection (a) of section 384 unless the

Section 387. March-in rights

Section 387 sets forth the basis on which the Government may terminate the contractor's title or exclusive rights with respect to one or more fields of use in any patent on a contract invention; may require the contractor to grant appropriate license or sublicense to responsible applicants; or, if necessary, may grant such licenses or sublicenses itself.

Subsection (a) sets forth the grounds for exercise of march-in rights:

(1) If the contractor has not taken and is not expected to take timely and effective action to achieve practical application of the invention in one or more of the fields of use selected;

(2) If necessary to protect the national security;

(3) If necessary to meet requirements for public use specified by Federal regulation;

(4) If continuation of the contractor's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

(5) If the contractor has failed to comply with the reporting requirements of this Act with respect to such invention.

Subsection (b) permits the responsible agency to exercise its march-in rights either on its own initiative or in response to a petition from an interested person justifying such action.

Subsection (c) enables an agency to specify reasonable licensing terms whenever, in exercise of its march-in rights, it requires a contractor to grant a license or sublicence.

Section 388. Deviation and waiver

Section 388 permits Federal agencies, to further an agency's mission and the public interest, to deviate from any standard patent rights clause issued under section 390 acquiring more or fewer rights to a contract invention.

Subsection (a) authorizes deviations either on a class basis in accordance with regulations to be issued under section 390, or, unless prohibited by those regulations, under regulations issued by an agency itself. Case-by-case deviations are permitted when authorized by the head of an agency or a designee, and described in the Federal Register.

Subsection (b) forbids waiver under any circumstances of the national security and antitrust march-in rights reserved by sections 387(a)(2), 387(a)(4), and 387(c).

Subsection (c) allows waiver of rights reserved by sections 384(a) and 387(a)(1) only: (1) in contracts involving cosponsored, cost-sharing or joint venture research to which the Contractor makes a substantial contribution of funds, technology, facilities, or equipment; or (2) in contracts with a contractor whose participation is necessary for the successful accomplishment of an agency mission and such contract cannot be obtained under the standard patent rights clause.

Section 389. Transfer of rights to contractor employees

Section 389 authorizes a contractor's employee-inventor to receive some or all of the contractor's rights to a contract invention if the

Paragraph (6) permits the Government to enter into agreements allocating rights in inventions resulting from research and development to which other parties have contributed substantially, notwithstanding paragraph (1) of this section.

Section 394. Presumptions

Section 394 establishes rebuttable presumptions for the application of the criteria set forth in section 393.

Subsection (a) sets out employee duties which establish a rebuttable presumption that an invention falls within the criteria of paragraph (1) of section 393.

Subsection (b) establishes a rebuttable presumption that an invention made by an employee whose duties fall outside those listed in paragraph (a) of this section falls within the criteria of paragraph (2) of section 393, reserving to the employee title to an employee-invention subject to certain license rights in the Government.

Section 395. Review of agency determinations

Section 395 provides for the review of Federal agency determinations regarding the respective rights of the Government and a Federal employee-inventor in situations in which the agency determines not to acquire all rights in an invention or where an aggrieved employee-inventor requests review. The review is to be conducted according to regulations issued under section 399.

Section 396. Reassignment of rights

Section 396 establishes a right in the Government to adjust the rights acquired from a Federal employee-inventor on the basis of evidence that the granting of greater rights to the employee-inventor is necessary to correct an inequitable allocation of rights.

Section 397. Incentive awards program

Subsection (a) provides Federal agencies the right to establish an incentive awards program which is intended to monetarily recognize Federal employee-inventors, stimulate innovative creativeness, and encourage disclosures of inventions which in turn will enhance the possibility of utilization through the Federal licensing program established under subchapter III.

Subsection (b) sets forth the criteria for making an award.

Subsections (c), (d), and (e) establish the procedures for making awards of different amounts.

Subsection (f) provides that acceptance of a cash reward constitutes an agreement by the employee-inventor that any use by the Government of an invention for which an award is made does not form the basis of a further claim of any nature against the Government by the receipt, his heirs, or assigns.

Subsection (g) requires that an award should be paid from the fund or appropriation of the agency primarily benefitting.

Section 398. Income sharing from patent licenses

Section 398 authorizes Federal agencies to share income from licensing the Government's patent rights with the employee-inventor.

Section 399. Regulations

Subsection (a) makes the Secretary of Commerce responsible for issuing regulations to implement subchapter II.

(2) If necessary to protect national security;

(3) If necessary to meet requirements for public use specified by Federal regulation;

(4) Continuation of licensee's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

(5) If the licensee has failed to comply with the terms of the license.

Subsection (b) permits the responsible agency to exercise its march-in rights either on its own initiative or in response to a petition from an interested person.

Section 404. Regulations

Section 404 makes the Office of Federal Procurement Policy responsible for directing the issuance of regulations specifying the terms and conditions upon which federally-owned patent rights may be licensed. Agencies are permitted to deviate from such regulations on a class basis unless prohibited by the Office of Federal Procurement Policy.

SUBCHAPTER IV—MISCELLANEOUS

Section 405. Patent enforcement suits and right of intervention

Subsection 405(a) provides for enforcement of an exclusive license under the chapter by an exclusive licensee without the necessity of joining the United States or any other exclusive licensee as a party. However, the Attorney General and the agency that granted the license must be given prompt notice of the suit and served copies of papers as though they were parties to the suit.

Subsection (b) requires the responsible agency to notify all of its exclusive licensees of any suit by an exclusive licensee, the Government, or another person.

Section 406. Background rights

Section 406 specifies that nothing contained in this chapter will be construed to deprive the owner of any background patent or of rights under such a patent.

Section 407. Notice, hearing, and judicial review

Subsection (a) requires that agency determinations under sections 382, 387(a) and 387(c), and 403, must have written reasons and be preceded by public notice and an opportunity for a hearing in which the United States, any agency, and any interested person may participate.

Subsection (b) permits the United States or any adversely affected participant to appeal a subsection (a) determination to the United States Court of Customs and Patent Appeals within sixty days after it is issued. The Court of Customs and Patent Appeals is given exclusive jurisdiction to determine the matter de novo, affirming, reversing, or modifying the agency determination.

Section 408. Relationship to other laws

Section 408 is intended to remove any implication that the act

Section 408 is intended to remove any implication that the act provides immunity from the antitrust laws.

SECTION 7

Section 7 amends or repeals parts of other acts as necessary to implement the provisions of new chapter 38 of title 35, United States Code. Acts amended or repealed in part are:

Title 7, U.S.C 427(i).
Title 7, U.S.C. 1624(a).
The Federal Coal Mine Health and Safety Act of 1969.
The National Traffic and Motor Vehicle Safety Act of 1966.
The National Science Foundation Act of 1950.
The Atomic Energy Act of 1954.
The National Aeronautics and Space Act of 1958.
The Coal Research and Development Act of 1960.
The Helium Act Amendments of 1960.
The Arms Control and Disarmament Act of 1961.
The Appalachian Regional Development Act of 1965.
The Federal Nonnuclear Energy Research and Development Act of 1974.
The Tennessee Valley Authority Act of 1933.
The Consumer Product Safety Act.
Title 30, U.S.C. 323.
The Resources Conservation and Recovery Act of 1976.
The Electric and Hybrid Vehicle Research, Development, and Demonstration Act of 1976.
Public Law 95–39.
The Water Research and Development Act of 1978.

SECTION 8

Section 8 provides for effective date of the bill's provisions.

Subsection 8(a) specifies sections 2, 4, and 5 will take effect on enactment.

Subsection 8(b) provides that section 1 will take effect on the first day of the seventh day after enactment and will apply to patents then in force or issued thereafter.

Subsection 8(c) provides that section 3 will take effect on the first day of the first fiscal year beginning one calendar year after enactment. However, until that section takes effect, the Secretary, in order to pay the cost of reexamination proceedings, may credit the Patent and Trademark Office Appropriation Account with the revenues from collected reexamination fees.

Subsection 8(d) continues existing fees until new fees are established.

Subsection 8(e) provides that maintenance fees shall not be applicable to patents applied for prior to the date of enactment of the Act.

Subsection 8(f) provides that sections 6 and 7 of the bill will take effect on the first day of the seventh month after its enactment, although implementing regulations may be issued earlier.

[By fiscal years, in millions of dollars]

	1981	1982	1983	1984	1985
Revenue reduction	1.8	23.2	23.8	24.3	24.8
Net spending reduction:					
Estimated authorization level	1.9	23.8	24.8	25.8	31.8
Estimated outlays	2.4	24.7	24.8	25.8	31.8
Net budget impact [1]	−.6	−1.5	−1.0	−1.5	−7.0

[1] Negative sign indicates increased surplus or decreased deficit.

The costs of this bill fall primarily within budget subfunction 376.

6. Basic of estimate: For purposes of this estimate, it is assumed that this bill will be enacted around October 1, 1980.

REEXAMINATION OF PATENTS

H.R. 6933 would allow any party to petition the PTO to reexamine a patent for validity. The cost of reexamination would be paid by the party based on a fee structure established by the Commissioner of Patents. It is anticipated that the number of patent applications for reexaminations will be limited by the cost involved and the potential for commercial development. Based on rates currently available in foreign countries for similar procedures, as well as estimates provided by the PTO, it is estimated that the number of appeals will be approximately 500 in fiscal year 1981, increasing to 2,000 by 1982, and remain relatively stable thereafter.

Although the bill does not specifically authorize funding for this purpose, it is assumed that additional staff will be required to handle the reexamination procedures. Based on PTO data, it is estimated that the average cost per employee, including overhead and benefits, would be approximately $40,000 in fiscal year 1981. Assuming approximately 30 hours per reexamination, plus clerical support, it is estimated that approximately 55 appeals could be reviewed annually by a professional staff member. It is estimated that the cost of this procedure would be approximately $0.4 million in fiscal year 1981, which reflects six months' activity. Costs are estimated to be $1.4 million in fiscal year 1982, increasing to $2.5 million by fiscal year 1985. It is assumed, however, that the full amount required by the PTO for salaries and expenses would be recovered by fees set at the beginning of the fiscal year and adjusted annually for inflation and anticipated workload. It is assumed that fees would be included with the request for reexamination and reflected as a reimbursable to the agency, resulting in a net outlay of around zero in each fiscal year.

REVISION OF FEE STRUCTURE

H.R. 6933 would restructure the current fee structure for patents and trademarks. Currently, the PTO recovers approximately 20 percent of the cost of processing patents and approximately 30 percent of the cost of issuing trademarks. These fees are deposited in the general fund of the Treasury.

H.R. 6933 would revise the criteria for allocation of invention rights between the federal government and employees who produce inventions. To stimulate innovation, the bill would establish an incentive cash awards program to federal employee-inventors. The awards are to be paid from funds from royalties or agency appropriations; consequently, it is estimated that this provision would result in no additional cost to the government.

The bill also authorizes federal agencies to share income from licensing the government's patent rights with the employee-inventor. It is not possible at this time to estimate the extent which royalties will be generated or shared with employee-inventors.

OTHER

The bill would repeal section 117 of the 1976 Copyright Act, which disclaims any intent to modify the pre-existing copyright law for computer programs. This has the effect of clearly applying the 1976 law to computer programs, which is not expected to have a cost impact upon the federal government.

In addition, H.R. 6933 outlines the responsibilities of the Secretary of Commerce to assist agencies and others in promoting access to patent information. Currently these activities are being performed by the National Technical Information Service (NTIS), created in 1970. The President is requesting approximately $740,000 for these activities in fiscal year 1981, which is about the same level of funding in the current fiscal year. The bill would authorize the appropriation of such sums as may be necessary for these activities. Since current law authorizes these activities it is estimated that no additional costs would be incurred as a result of enactment of this legislation.

Finally, the PTO would be required to report within two years of date of enactment on the status of a computerized data retrieval system. Since the PTO is already planning to study and evaluate the feasibility of such a system, it is assumed that any significant costs incurred as a result of analyzing or implementing such a system would not be a direct result of the legislation. Consequently, no cost has been estimated for this provision.

7. Estimate comparison: The Commissioner of Patents has estimated that approximately 1,000 to 3,000 requests for reexaminations would be made annually, requiring from 25 to 100 additional staff members, at a cost of between $1 million and $4.5 million annually. CBO estimates approximately 500 applications will be processed beginning in fiscal year 1981 because a later date of enactment is assumed.

8. Previous CBO estimate: On August 28, 1980, the CBO prepared a cost estimate on H.R. 6933, as ordered reported by the House Committee on the Judiciary on August 20, 1980. This version of H.R. 6933 would have required the General Accounting Office to report on the desirability of merging the Patent and Trademark Office (PTO) with the Copyright Office and the Copyright Royalty Tribunal. It would also have established the PTO as an independent agency, removing it from the Department of Commerce. The difference in costs between the two versions of H.R. 6933 reflect these differing provisions.

On February 27, 1980, the CBO prepared a cost estimate for S. 1679, the Patent Law Amendments of 1979, as ordered reported by the Sen-

on the Judiciary are shown on pages 33 through 81 of House Report 96–1307, Part 1.

For the information of the Members of the House of Representatives, the changes made by the Committee on Government Operations strike out the amendments made to title 35 of the United States Code in sections 1, 3(a), 3(b), 3(c), 6, 7, 31, 181, and 188; and section 12(c) of the Act of February 14, 1903 by the bill as reported by the Committee on the Judiciary. Consequently, these existing provisions of law are not changed in the bill as reported by the Committee on Government Operations.

the profits that may result. There should not be a different standard applied when it is the government that risks the taxpayers' money. The rewards of successful research and development conducted at government expense should go to all the people.

I agree wholeheartedly with the establishment of a U.S. patent policy that encourages the development and production of new products, that will reward those who take risks, and that will inspire increased confidence in our economy. My comments above deal only with the very special issue of government-funded research and development activities. (A fuller explanation of my views can be found in the report of H.R. 6933, as reported by the House Judiciary Committee, H. Rept. 96–1307, Part I, pp. 29–32.)

The Federal Government has the equivalent of a fiduciary responsibility to the taxpayers of this country. Property acquired with pubic funds should belong to the public. Deviations from that fundamental principle should be allowed only where a compelling justification can be shown and where the voice of the public can be heard in protest. This legislation stands that principle on its head by automatically conveying title or the exclusive right to use public property to private entities and placing the burden on the Federal government to demonstrate that a retrieval of those rights is in the public interest.

JACK BROOKS.

and in drafting a large piece of legislation. Nevertheless, I believe it can fairly be said that not all of the Committees whose jurisdictions would be significantly affected by this legislation have been adequately consulted. Their judgment and experience is vitally needed to assure that this bill's approach is indeed a sound one for all the diverse areas which it will affect, as its sponsors take great pride in pointing out.

For that reason, I urge my colleagues to opt for further consideration of this measure. I specifically urge that all Committee Chairmen whose substantive jurisdictions will be affected by the impact of this bill on government-sponsored research in their areas be given adequate time to assess this bill and to consult with one another before the House takes action. I am aware that genuine consultation of this sort probably cannot be achieved in the waning hours of this Congress. If not, I believe the long-term implications of this measure are far too important to go forward at this time.

As with so many of our problems as a Nation, we did not get into this problem of lowering productivity and declining ingenuity overnight. It is a complex problem reflecting many developments over many years. There is thus no need to rush out a bill now without being certain that we are doing the right thing, based on the full and deliberate consultation among our colleagues with the greatest knowledge of the potential effects of this legislation.

TOBY MOFFETT.

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ADDITIONAL VIEWS OF HON. TOBY MOFFETT

Encouraging industrial innovation and increased productivity by U.S. businesses is central to retaining our commercial primacy in the world marketplace. For that reason, the goals of H.R. 6933 and its sponsors are easily shared and properly applauded by all of us.

Unfortunately, the approach taken by H.R. 6933 appears to be seriously flawed. I share the general view expressed by Chairman Jack Brooks in fearing that the bill constitutes a "giveaway of rights that properly belong to the people." Sections 6 and 7 of the bill go too far in favoring the commercial rights of contractors doing research with government—that is, taxpayers'—funds. And it does so without adequate demonstration that the stated lofty goals of increased innovation and productivity will in fact result from shifting the law for the benefit of these contractors.

To pursue that point, let me turn one of the proponents' arguments on its head. It is said that we need "uniformity" in this area, and it is pointed out that there are now "26" different statutory schemes affecting this question of the commercial rights to inventions and discoveries generated under government research grants and contracts. The fallacy of that argument can be seen by looking more carefully at some of those 26 specific arrangements established by statute. The fact is that each statutory enactment was rooted in specific events, specific cases or situations examined by the appropriate Congressional Committees. In each instance, the considered opinion of the Congress was that the results of the research being promoted in that case could best be preserved for the benefit of the public by the commercial licensing arrangement sanctioned at that time. Some of those Congressional determinations, moreover, are quite recent, such as the Federal Mine Safety and Health Act of 1977 and the Water Research and Development Act of 1978.

In my judgment, those statutes demonstrate that the case can be made for diversity rather than uniformity. It would appear more appropriate for the Judiciary Committee to have produced a bill which precisely assessed the arrangements in each of the 26 cases, in consultation with the Committees having jurisdiction in each of those areas, and to have produced a bill creating the best arrangement for each of those areas. Such a bill would not seek uniformity for its own sake, but would analytically design the best arrangement with regard to commercial use for each of the many areas in which the Federal government sponsors research. Such a bill might produce uniformity, but it might also reflect the fact that different cases sometimes deserve different treatments.

That observation leads to an additional compelling reason why this legislation should not be passed by this Congress at this time. I fully respect the extensive efforts of the Judiciary Committee. I am well aware of the hard work involved in holding numerous days of hearings

ADDITIONAL VIEWS OF HON. JACK BROOKS

The major problem I have with H.R. 6933 is that it violates a basic provision of the unwritten contract between the citizens of this country and their government; namely, that what the government acquires through the expenditure of its citizens' taxes, the government owns. Assigning automatic patent rights and exclusive licenses to companies or organizations for inventions developed at government expense is a pure giveaway of rights that properly belong to the people.

The argument is made by proponents of the bill that it will spur productivity, a goal that is both necessary and desirable if the United States is to regain its position in the world economy. But that argument ignores the fact that the Federal Government is already paying half the costs of research and development in the United States at an annual cost of $30 billion. No companies or nonprofit organizations that I know of have been turning down that money because they are not now receiving automatic patent and exclusive licensing rights. So unless it is the intent of the supporters of H.R. 6933 that the government greatly increase this already enormous public investment in research and development, I fail to see how enactment of the bill will lead to increased production.

It is also argued that this legislation will increase competition in industry and thereby spur production. But again the connection is hard to establish. Under current practice, inventions, new products and technological advances developed under government contracts—unless awarded to a specific contractor under existing permissible arrangements—are available to all. That approach would seem to offer far greater potential for increased competition and productivity than handing over exclusive rights to one company. In the latter case the company might even choose to reduce production with the aim of increasing its profits.

Admiral Hyman G. Rickover testified at the hearings by the Legislation and National Security Subcommittee that:

> Based on 40 years experience in technology and in dealing with various segments of American industry, I believe the bill would achieve exactly the opposite of what it purports. It would impede, not enhance, the development and dissemination of technology. It would hurt small business. It would inhibit competition. It would promote greater concentration of economic power in the hands of large corporations. It would be costly to the taxpayer.

I do not overlook or underestimate the importance of patents in developing and maintaining a thriving economy. My concern is simply the role of the government and the rights of the people in the patent process. When a private company risks its own money to develop new products and procedures it deserves and receives

ate Committee on the Judiciary on February 19, 1980. The costs of S. 1679 and the costs attributed to reexamination in this bill are the same, with adjustments assumed for date of enactment.

On December 4, 1979, CBO prepared a cost estimate on S. 414, the University and Small Business Patent Procedures Act, as ordered reported by the Senate Committee on the Judiciary on November 20, 1979. The CBO estimated that no significant cost would be incurred by the government if a uniform patent procedure for small businesses and nonprofit organizations performing government-supported research and development were established.

9. Estimate prepared by: Mary Maginniss.

10. Estimate approved by:

C. G. NUCKOLS
(For James L. Blum,
Assistant Director for Budget Analysis).

COMMITTEE ESTIMATE OF COST

A number of provisions in the bill do not come within the jurisdiction of the Committee on Government Operations. These have not been considered in depth by the committee and, therefore, the committee has no basis upon which to make an estimate of cost for the entire bill.

INFLATIONARY IMPACT

The committee has insufficient evidence available on which to determine whether this legislation will have a significant inflationary impact on prices and costs in the operation of the economy.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

The bill, as reported by the Committee on Government Operations, provides no new budget authority and tax expenditures.

REVIEW OF EXISTING LAW

In compliance with Subdivision (A) of Clause 2(1)(3) of House Rule XI, the Subcommittee on Legislation and National Security reviewed the application and administration of the laws relating to patent policy and organization.

OVERSIGHT FINDINGS

No oversight findings or recommendations were made, other than the legislation recommended in this report.

CHANGES IN EXISTING LAW

The bill was referred to the Committee on Government Operations for a period ending not later than September 23, 1980, for consideration of such provisions of the bill and amendment as fall within the jurisdiction of that Committee under clause 1(i)(2), rule X. The changes made to existing law by the bill as reported by the Committee

The bill would allow the PTO to recover up to 25 percent of the average processing costs and 25 percent of the maintenance costs for patents, the latter fee collected in four installments over the life of the patent. In addition, the PTO would be allowed to recover a maximum of 50 percent of the cost of issuing trademarks. All fees for patents and trademarks could be adjusted no more than once every three years and would be credited to the PTO as a reimbursable to the agency, rather than as a revenue to the Treasury.

It is assumed that the revised fee structure for trademarks would be implemented early in the second quarter of fiscal year 1981, and for patents beginning in fiscal year 1982. It is assumed that the agency costs for processing patents and trademarks from which recovery could be made would be approximately $84 million in fiscal year 1982, increasing to approximately $109 million by fiscal year 1985. It is assumed that an average recovery rate of 25 and 50 percent, adjusted ever ythird year, would be established for processing fees for patents and for trademarks, respectively. Patent maintenance fees would be collected three times in a patent's life—around the fourth, eighth, and twelfth year. Since the first payment would not be made until fiscal year 1986, it is not reflected in the table below.

[By fiscal years, in millions of dollars]

	1981	1982	1983	1984	1985
Estimated revenues: Existing fee structure:					
Patents	20.3	20.8	21.3	21.8	22.2
Trademarks	2.4	2.4	2.5	2.5	2.6
Total	22.7	23.2	23.8	24.3	24.8
Proposed fee structure in H.R. 6933:					
Estimated collections:					
Patents [1]	[2] 20.3	21.2	21.2	21.2	27.2
Trademarks:	3.6	3.6	3.6	4.6	4.6
Total	23.6	24.8	24.8	25.8	31.8
Net budget impact	−.9	−1.6	−1.0	−1.5	−7.0

[1] Maintenance fees would be collected beginning in fiscal year 1986, and by fiscal year 1994 would result in revenues approximately twice those estimated for processing.
[2] The current fee structure for patents remains in effect through fiscal year 1981.

GOVERNMENT PATENT POLICY

H.R. 6933 would establish a uniform federal system for the commercialization and allocation of rights in inventions resulting from federally sponsored or supported research and development. The bill would allow contractors from small businesses and non-profit institutions to acquire title to inventions resulting from government-funded research. Other contractors could receive exclusive licenses for specific uses. The bill directs the Office of Federal Procurement Policy (OFPP) to issue regulations to implement these policy changes. According to the OFPP, the cost of revising existing regulations would be minimal. It is estimated implementation of these changes in the various federal agencies, including training, would cost approximately $650,000 in fiscal year 1981. Outlays are estimated to be 90 percent the first year and 10 percent the second year.

SECTION 9

Section 9 requires the Commissioner of Patents and Trademarks to report to Congress, within two years after the effective date of the Act, on a plan for computerized data and retrieval systems for the operation of the Patent and Trademark Office.

SECTION 10

Subsection 10(a) adds a definition of "computer program" to section 101 of Title 17, United States Code.

Subsection 10(b) amends section 117 of Title 17, United States Code in regard to copyrights on computer programs.

COST ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE

The cost estimate prepared by the Congressional Budget Office is contained in the following letter from its Director:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., September 23, 1980.

Hon. JACK BROOKS,
Chairman, Committee on Government Operations, U.S. House of Representatives, Rayburn House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for H.R. 6933, a bill to amend the patent and trademark laws.

Should the committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

ALICE M. RIVLIN, *Director.*

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

SEPTEMBER 23, 1980.

1. Bill number: H.R. 6933.

2. Bill title: A bill to amend the patent and trademark laws.

3. Bill status: As ordered reported by the House Committee on Government Operations on September 23, 1980.

4. Bill purpose: This bill would establish a new fee structure within the Patent and Trademark Office (PTO), provide for a system of administrative reexaminations, and create a uniform government policy regarding patent rights. The PTO would also be required to implement a computerized data and retrieval system. In addition, H.R. 6933 would repeal section 117 of the 1976 Copyright Act to clarify copyright laws regarding computer programs.

5. Cost estimate: The table below reflects the budget impact resulting from a change proposed by H.R. 6933 in the classification of the fees received by the PTO.

Section 409. Authority of Federal agencies

Subsections (a), (b), (c), (d), (e), and (f) set forth the authority of Federal agencies to protect patent rights at home and abroad in—"any invention in which the Government has an interest in order to promote the use of inventions having significant commercial potential or otherwise advance the national interest"—to license federally-owned patent rights; to transfer patent rights to and accept transfers of patent rights from other agencies without regard to the property transfer procedures required py the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471); to withhold publication or release of information disclosing any invention long enough for patent applications to be filed; to promote the licensing of federally-owned patent rights; and to enter into contracts to accomplish the purpose of this section.

Section 410. Responsibilities of the Secretary of Commerce

Section 410 provides authority for the Department of Commerce to assist other Federal agencies administer the licensing of federally-owned inventions.

Paragraph (a)(1) authorizes the Secretary to consult with the Federal agencies about areas of science and technology with commercial potential.

Paragraph (a)(2) authorizes the Secretary of Commerce to coordinate a program to help agencies carry out their authorities under section 409.

Paragraph (a)(3) authorizes the Secretary to evaluate inventions referred to it by Federal agencies in order to identify those inventions with the greatest commercial potential.

Paragraph (a)(4) authorizes the Secretary to assist the Federal agencies in seeking and maintaining patent protection in any country, including the payment of fees and costs.

Paragraph (a)(5) authorizes the Secretary to develop and manage a government-wide program, with private sector participation, to stimulate transfer to the private sector of potentially valuable federally-owned technology through the dissemination of information about the technology.

Paragraph (a)(6) authorizes the Secretary to publish notices of all federally-owned patent rights available for licensing.

Paragraph (a)(7) requires the Secretary, seven years after the date of enactment of the Act, to report on its operation to the Congress.

Subsection (b) authorizes the appropriation to the Secretary of Commerce of such sums as thereafter may be necessary to enable the Secretary to carry out responsibilities under this section.

Section 411. Definitions

Section 411 sets out the definitions, for purposes of the Act for the terms "Agency," "Responsible agency," "antitrust laws," "contract," "contractor," "Federal employee," "invention," "made," "nonprofit organization," "patent rights," "practical application," "small business," "state," "local," and "will."

Subsection (b) provides that determination concerning a Federal employee's promotion of the employee's invention is subject to regulations to be prescribed by the Secretary of Commerce with the concurrence of the Office of Government Ethics and the Attorney General.

SUBCHAPTER III—LICENSING OF FEDERALLY OWNED INVENTIONS

Section 400. Covered inventions

Section 400 provides that subchapter III applies to all federally-owned patent rights, including licenses or sublicenses granted or required to be granted by the Government under section 387, upon or after exercise of the march-in provisions. However it does not apply to licenses established by the other sections of subchapter I.

Section 401. Exclusive or partially exclusive licenses

Section 401 sets out terms and conditions under which a Federal agency may grant an exclusive or partially exclusive license.

Subsection (a) provides that an exclusive or partially exclusive domestic license not automatically granted under section 384 may be granted only after public notice and opportunity for filing written objections and only if the responsible agency determines that such licensing is necessary to achieve practical application of the invention and that the scope of proposed exclusivity is not greater than reasonably necessary.

Subsection (b) provides that an exclusive or partially exclusive foreign license may be granted only after public notice and opportunity for filing written objections and after a determination whether the interests of the Government or of United States industry in foreign commerce will be enhanced.

Subsection (c) prohibits the granting of a license under this section if the responsible agency determines that the grant would create or maintain a situation inconsistent with the antitrust laws.

Subsection (d) requires Federal agencies to maintain publicly available, periodically updated records of their determinations to grant exclusive or partially exclusive licenses.

Section 402. Minimum Government rights

Section 402 sets forth the minimum rights the Government is to have in every exclusive or partially exclusive license:

(1) The right to require from the licensee written reports on the use of the invention;

(2) A royalty-free, worldwide right to practice the invention or have it practiced for the Government; and

(3) The right to license State and local, to practice the invention or have it practiced for them if the agency determines that reservation of this right would serve the national interest.

Section 403. March-in rights

Section 403 sets forth the basis on which the Government may terminate an exclusive or partially exclusive license.

Subsection (a) sets forth the grounds for such termination:

(1) If the licensee has not taken and is not expected to take timely and effective action to achieve practical application of the invention in the fields of use affected;

responsible agency and the contractor approve. The corresponding obligations of the contractor under subchapter I then become the obligations of the employee.

Section 390. Regulations and standard patent rights clause

Subsection 390(a) requires the Office of Federal Procurement Policy to direct the issuance of regulations implementing subchapter I, including the establishment of a standard patent rights clause or clauses.

Subsections (b), (c) and (d) require a sharing of the royalties and/or revenues with the Government to pay the Government for Federal funding of research and development. Regulations to be developed may permit waiver of some or all of this payment.

SUBCHAPTER II—INVENTIONS OF FEDERAL EMPLOYEES

Section 391. Employees inventions

Section 391 defines "employees inventions" as inventions made by Federal employees.

Section 392. Reporting of inventions

Section 392(a) requires that a Federal employee report to the employee's agency all inventions made while an employee of that agency. The Government is prohibited from publishing or releasing these reports until the earlier of one year after their receipt or the final disposition of rights under this subchapter.

Section 393. Criteria for the allocation of rights

Section 393 establishes the criteria for allocation of invention rights between the Government and its employee-inventor. Basically, the allocation depends upon the relationship of the invention to the employee's work and the use of Government resources.

Paragraph (1) provides for Government acquisition of all invention rights if the invention bears a direct relation to the duties of the employee-inventor or was made in consequence of the employee's employment.

Paragraph (2) provides that, where the invention neither bears a direct relation to the employee's duties nor was made in consequence of the employee's employment, but was made with a contribution of Federal resources, the employee may receive all rights in the invention subject to a nonexclusive royalty-free worldwide license to the Government to practice the invention or have it practiced for the Government as well as to sublicense State, local, or foreign governments if acquisition of this right would serve the national interest.

Paragraph (3) permits the Government to waive to the employee its rights under paragraph (1) of this section, subject to the Government license described in paragraph (2) of this section, if the agency finds insufficient interest in the invention to warrant exercising the Government's rights.

Paragraph (4) requires the Government to acquire all rights in any invention if the national security might be impaired should the employee-inventor receive rights to it, notwithstanding the provisions of paragraphs (2) or (3) of this section.

Paragraph (5) entitles an employee-inventor to all rights in an invention made by the employee not covered by paragraphs (1), (2), or (3) of this section.

agency earlier notifies the contractor of a contrary determination under subsection (d) of this section with respect to such field of use.

Subsection (d) sets forth the basis for an agency determination that a contractor will not receive an exclusive license in a selected field of use; if the responsible agency determines that the contractor's possession of such license (1) would impair national security; or (2) would create or maintain a situation inconsistent with the antitrust laws.

Subsection (e) provides that, whenever an agency determines that a contractor will not receive an exclusive license in any field of use, it must include in its determination written reasons, and that the contractor has the right of appeal de novo to the United States Court of Customs and Patent Appeals within sixty days after the determination is issued. The Court of Customs and Patent Appeals is given exclusive jurisdiction to affirm, reverse, or modify the agency determination. Specifically included is the authority for the court to order the responsible agency to issue an exclusive license to the contractor.

Subsection (f) permits the contractor to obtain title to any contract invention in any foreign country in which the contractor agrees to file a patent application, unless the responsible agency determines that the national interest would be affected adversely, which should not occur except in extraordinary circumstances. However, title will be subject to the Government minimum rights under section 386 and march-in rights under section 387. If the contractor does not file a patent application within a reasonable time, then the Government may acquire title to patents on the contract invention.

Section 385. Contractor license

Subsection 385 automatically grants a nonexclusive, royalty free license to each contractor complying with subsection (b) of section 382 to practice the contract invention in all countries in which it neither receives title under subsection (a) of section 383 nor has an exclusive license under subsection (b) of section 384. This nonexclusive contractor license may be revoked by the Government only to the extent necessary to grant an exclusive license under subchapter III.

Section 386. Minimum Government rights

Subsection (a) sets forth the minimum rights the Government has in every contract invention, unless waived under the authority of section 388. These minimum rights are:

(1) The right to require from the contractor written reports on the use of the invention if patented;

(2) A royalty-free worldwide license to practice the invention or have it practiced for the Government; and

(3) The right to license or sublicense state and local governments to practice the invention or have it practiced for them, if the agency determines at the time of contracting that acquisition of this right would serve the national interest.

Subsection (b) requires that whenever the Government has rights in a contract invention, notice to that effect shall be included in each United States patent application and patent on the invention.

The committee believes it is essential for the Patent Office to conduct a thorough review of its ADP management to insure that the deficiencies illustrated by its ill-fated data base and retrieval project have been corrected. Such a study should be conducted and the problems resolved before any new effort to develop a computer system is initiated.

It is the committee's view, however, that a six-month timeframe is too short for adequate and comprehensive consideration and development of such a system. In order to insure that the system which is proposed is adequate to the needs of PTO and as efficient and economical as possible, the committee has extended the time for this report to be submitted to Congress to two years.

H.R. 6933, as reported by the Committee on the Judiciary, also required the Commissioner to report to the Congress every six months on the progress being made is implementing a program of computer technology. In the interest of curtailing burdensome reporting requirements that are of limited use, the Committee on Government Operations has removed this reporting requirement. The committee believes that the same purpose should be served through the oversight process of committees of Congress having jurisdiction over the Patent and Trademark Office.

Section-by-Section Analysis

SECTIONS 1–5

Section 1 of the bill adds seven new sections to the patent laws to establish a patent reexamination system. These seven new sections would constitute Chapter 30 of Title 35 of the United States Code.

Section 2 of the bill would restructure and modernize Section 41 of Title 35 of the United States Code, the basic fee provision of the patent laws.

Section 3 of the bill would amend Section 41 of Title 35 of the United States Code to provide for the crediting of fee revenue to the Patent and Trademarks Office Appropriation Account.

Section 4 of the bill is a technical amendment to Section 154 of the patent law necessitated by creation of the maintenance fee system.

Section 5 of the bill amends Section 31 of the Trademark Act of 1946, as amended (15 U.S.C. 1113) to modernize the trademark fee system.

Inasmuch as these provisions are not within the jurisdiction of the Government Operations Committee, the reported bill makes no changes in sections 1 through 5 of H.R. 6933 as reported by the Committee on the Judiciary. (See House Report 96–1307, Part I, for explanation.)

SECTION 6

Section 6 of the bill amends Title 35 of the United States Code by adding after chapter 37 a new Chapter 38, the Government Patent Policy Act of 1980.

Section 381. Title

Section 381 provides for the chapter to be known as the Government Patent Policy Act of 1980.

us that such a study of the Patent Office is unnecessary. Its deficiencies are well known. The suggested study of the Copyright Office and the Copyright Royalty Tribunal seemed directed toward the possible merger of these two offices with the Patent Office. During our subcommittee hearings, we heard testimony from the Librarian of Congress, who supervises the work of the Copyright Office. It was his testimony that the Office had recently undergone an investigation by the House Committee on Appropriations and had been subject to an internal audit by the Library of Congress within the past year. A number of changes in its operations have been brought about and that Office is now operating under a new copyright law which became effective in 1978 and a new Register of Copyrights has been appointed. Furthermore, there has been an entire staff relocation during which the Office was moved, and such relocations bring about some disruption in operation. It was his opinion, and the committee agreed, that an investigation at this time would serve no useful purpose and that a possible merger of those offices should not take place in the immediate future. The committee, therefore, recommended an amendment that would delete the proposed study and report.

PATENT OFFICE REORGANIZATION

The bill as reported by the Judiciary Committee would remove the Patent Office from the Department of Commerce, where it has been located for many years, and establish it as an independent agency. This proposal is apparently based on the assumption that the Patent Office would function more efficiently and be able to claim greater resources as an independent agency. The committee explored this matter at some length and heard testimony from the Secretary of Commerce. Secretary Klutznick, speaking for the Administration, strongly opposed the removal of the agency from the Department. He cited actions which had been taken in the recent past. A zero base analysis of Patent-Trademark Office operations produced an internal reorganization of the Office to strengthen and integrate its financial and planning activities. The financial resources of the Office have been improved. The Secretary said, "Under this Administration, the budget of the PTO has increased at a faster rate than that of the Commerce Department as a whole." He said that in the fiscal year 1981 budget, made at a time of severe budgetary constraint, a $6,300,000 increase in the PTO appropriation was requested. He also stated that the fee provisions contained in this legislation are a major initiative to place the financing of the PTO on a more secure basis by revising its funding mechanism and by requiring that fees be set to recover a substantial portion of the PTO's operating expenses.

It is expected that if an independent Patent Office were established with its own administrative hierarchy, and which must make available the facilities and services that are now being provided by the Department of Commerce, such a reorganization would be a very costly operation. Furthermore, taking the Patent Office out of Commerce will not necessarily enhance its efficiency or improve its services to the business community and the public. What further changes in operations may be needed could just as well be done within the Department of Commerce.

committee's consideration was only for a period of two weeks and it was required to report no later than September 23. The time restraint under which the committee was forced to act limited the scope and depth of its study and adequate treatment could not be given to the extensive changes in patent policy proposed in this legislation. These changes and the purported justification for them deserve full consideration.

It was determined that Sections 1 through 5, dealing with certain procedures and fees, were not within the jurisdiction of the committee. The committee's jurisdiction does cover those sections dealing with Government policies for retaining or disposing of contract inventions developed during the course of or under Government contracts and related matters, and those sections dealing with the reorganization or transfer of individual units of Government.

Explanation of Amendments

The first amendment deletes from the bill Section 9, which requires the Comptroller General to submit to Congress and the President a report describing the functioning of the Patent and Trademark Office, the Copyright Office, and the Copyright Royalty Tribunal. The Patent and Trademark Office is located in the Department of Commerce, the Copyright Office is located in the Library of Congress, and the Copyright Royalty Tribunal is a separate unit in the legislative branch. The report would analyze the efficiency of these agencies and make recommendations on the desirability of merging the Copyright Office and the Copyright Royalty Tribunal with the Patent and Trademark Office.

The second amendment alters Section 10(a) of the bill, which requires the Commissioner of Patents and Trademarks to report to Congress within six months after enactment a plan to computerize the data in the Trademark Office. The committee amendment would permit the Commissioner to have two years to make the report.

The third amendment would delete Section 10(b), which would require the Commissioner of Patents and Trademarks to report to Congress every six months on the progress being made in implementing computer technology in the Patent and Trademark Office.

The fourth amendment deletes Section 11 of the bill, which removes the Patent and Trademark Office from the Department of Commerce and sets it up as an independent agency.

Summary and Purpose

H.R. 6933, as reported by the Judiciary Committee, revises the patent and trademark laws to provide for various changes in procedure in the Patent and Trademark Office in the Department of Commerce; establishes a new uniform Government-wide patent policy regarding the retention or disposal of rights to contract inventions made by private businesses and non-profit organizations developed in the course of or under Federal contracts; by Federal employees in consequence of their employment or with Federal funds; and policy dealing with the licensing of Federally-owned inventions. The bill repeals a num-

7. Estimate comparison: The Commissioner of Patents has estimated that approximately 1,000 to 3,000 requests for reexaminations would be made annually, requiring from 25 to 100 additional staff members, at a cost of between $1 million and $4.5 million.
8. Previous CBO estimate: None.
9. Estimate prepared by: Mary Maginniss.
10. Estimate approved by:

C. G. NUCKOLS
(For James L. Blum,
Assistant Director for Budget Analysis).

VII. COMMITTEE VOTES

S. 1679 was reported favorably out of the committee on February 19, 1980 by a unanimous voice vote.

VIII. CHANGES IN EXISTING LAW

In the interests of economy the committee felt that the requirement of subsection (4) of rule XXIX of the Standing Rules of the Senate should be waived.

The bill creates a new chapter 29 in title 35 of the United States Code. The bill has been reprinted in full in section II of this report.

O

Sec. 310.—Any party to a civil action shall have the right to secure a stay of all proceedings in the action so that a reexamination can be performed.

VI. Budgetary and Regulatory Impact Statement

A. BUDGETARY IMPACT

The Commissioner of Patents and Trademarks Sidney A. Diamond estimated the cost of patent reexamination to run between $1 million to $4.5 million. This estimate is based on a projected 1,000 to 3,000 requests for reexamination per year which will require from 25 to 100 additional staff members.

The patent reexamination procedures in S. 1679 are designed to be self-supporting and will allow the Office to charge for full recovery of these costs. The Commissioner estimated that these charges would range from $1,000 to $1,500 per reexamination.

Because the fees recovered by the Patent and Trademark Office are not returned to it, but go to the Treasury Department, it will be necessary to make sure that this money is returned each year to the Office in its budget request. In summary there will be little budgetary impact by the enactment of S. 1679, but it will be necessary to insure that the funds taken in by the Office are returned to it in each year's budget.

B. REGULATORY IMPACT

Some additional regulations will be necessary to implement the requirements of S. 1679, but these should be minimal and will in no way encumber the operations of the Patent Office as reflected in the Commissioner's statement of support for reexamination in his testimony to the committee.

S. 1679 will have no impact on personal privacy.

With the addition of needed staff to implement S. 1679 and with full fee recovery, reexamination will not have an adverse effect on the PTO's paperwork burden.

C. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

Congressional Budget Office,
U.S. Congress,
Washington, D.C., February 27, 1980.

Hon. Edward M. Kennedy,
Chairman, Committee on the Judiciary,
U.S. Senate,
Dirksen Senate Office Building,
Washington, D.C.

Dear Mr. Chairman: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for S. 1679, the Patent Law Amendments of 1979.

Should the committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

Alice M. Rivlin, *Director.*

confidence in the worth of U.S. patents. This has an adverse effect on our ability to successfully innovate and produce new products.

Patent reexamination has been proposed as the most effective means for bringing to the attention of the PTO materials that might have been overlooked in the initial patent examination. Reexamination is not intended in any way to relax the patentability standards or to justify anything less than the best possible patent examination. The committee also realizes that unless the Patent and Trademark Office receives adequate funding, the deterioration of the patent and trademark system will inevitably continue.

Reexamination will be limited to the areas of primary expertise of the PTO—patents and printed publications. A reexamination can be initiated either by a challenger or the patent owner to determine if some newly discovered patents or printed materials affect an issued patent's claims. The Commissioner can also initiate reexaminations, if this becomes necessary. The PTO will be allowed to charge a fee that will serve to discourage frivolous requests and will make the reexamination program self-supporting. The Commissioner already has authority to discipline members of the bar that bring fourth unjustifiable requests for reexamination proceedings. Moreover, attempted harassment of patent owners through the reexamination procedure should be essentially precluded since the Commissioner of Patents and Trademarks has the authority to order reexamination only in those cases which raise a substantial new question of patentability.

When the PTO receives a request for reexamination, the patent holder will be notified, but will not be required to do anything until a decision is made on whether or not a substantial new question of patentability has been raised. If the PTO decides that a question has been raised the patent owner will be allowed to reply to the challenge. Participation by third parties will be limited. The patent reexamination procedure thereby parallels the existing examination procedures.

The PTO will decide whether or not the patent is valid and can permit the patent holder to narrow the claims of the patent if this is necessary. A decision to invalidate an issued patent can be appealed by the patent owner. Decisions to uphold the patent are not appealable.

The courts would not be prevented from hearing patent validity cases that could be handled by the reexamination procedure, but it is expected that, as a practical matter, reexamination would precede litigation. A court could also stay a proceeding that is brought before it so that a patent could be reexamined.

Under the Patent Office's reissue-reexamination program which now exists, there has been no evidence of any tendency on the part of the Patent Office to refuse to correct its mistakes through reexamination. The experience that has already been gained under the present system should help the successful implementation of S. 1679.

Reexamination will also help to bring to the PTO's attention materials and patents that might be missing from the search files. The problem of missing files is a serious one that deserves to be directly addressed, but reexamination should prove to be at least a partial solution to the problem.

Patent reexamination will also help to encourage innovation by providing a relatively simple, inexpensive method for testing a patent's

> From what I know of Judges' attitudes, I think they would welcome with open arms a chance to get Patent Trademark Office views on patentability over new art cited by defendants, even if the case had to be sent back to the PTO during the trial to get it. I have listened to a lot of discussion by trial judges about how they can get some expert help, independently of the parties' so-called experts. I think they ought to be able to get it from the PTO, where it is available. They do not relish doing the examiner's work and they are not equipped to do it. They are entitled to his help.

Reexamination will also return the courts to their proper function of determining validity or patent infringement questions rather than serving as patent examiners. Mr. Robert B. Benson, who was the chairman of President Carter's Domestic Policy Review's Subcommittee on Patents and Information Policy, spoke to this point in his testimony to the committee. Mr. Benson said:

> In summary, I believe that the proposed reexamination procedure will result in more accurately defining the legitimate scope of protection to which any potentially controversial patents are entitled, thereby increasing the credibility of the entire patent system. The reexamination procedure will eliminate the present practice of having district court judges function as patent examiners, and will return them to their traditional role of determining validity and infringement of patents after having the benefit of a skilled, independent, technical appraisal of the pertinency of all published prior art relative to the claimed invention by the Patent Office.

Mr. Donald R. Dunner, President of the American Patent Law Association, concurred that the courts would function more efficiently and that there would be a substantial reduction in the number of litigated cases if a reexamination system similar to that of S. 1679 were available. This would help both plaintiffs and defendants by drastically cutting the cost of obtaining a decision on the patent's validity.

C. INNOVATION AND THE PATENT SYSTEM

The committee heard from witnesses representing both large and small companies. Both groups agreed that a strong, dependable patent system was absolutely essential to the continued ability of American industry to successfully innovate. These witnesses also agreed that there was increasing uncertainty over the dependability of U.S. patents. Simply put, there is a widespread fear that patents representing promising inventions will be attacked by competitors that conduct exhaustive searches trying to find some relevant materials overlooked by the patent examiner. If such materials are found there is a good chance that the patent will be held invalid. When it is remembered that it can easily cost millions of dollars and take years of work to develop and market a new product, this fear is a serious obstacle to successful innovation. This holds true for both large and small companies.

Ms. Barbara N. Wyatt, Chairman of the Legislative Committee of the Inventor's Club of America and President of its Robert Goddard

be initiated only by the patentee. Under a reexamination system, any person would be allowed to test patent claims against newly discovered prior art in the same way they were originally tested, i.e., examination by an expert patent examiner. Thus, a reexamination system would complement the existing reissue practice in assuring that a patent provides protection commensurate with the contribution of the inventor.

Reexaminations, as a practical matter, would be concentrated on commercially important patents. Absent a commercial interest, businessmen will not seek reexamination. Moreover, the required fee will deter frivolous requests.

Reexamination would eliminate or simplify a significant amount of patent litigation. In some cases, the PTO would conclude as a result of reexamination that a patent should not have issued. A certain amount of litigation over validity and infringement thus would be completely avoided. Concomitant litigation over such time consuming and complex issues as patent misuse also would be reduced. In other instances, a reexamination proceeding in the PTO might more accurately define the scope of the patent. This would enable litigation to be resolved more quickly, or would promote out-of-court settlements. Licensing would be encouraged and potential competitors would be better able to judge the feasibility of entering a particular field of technology.

I cannot overemphasize the importance of establishing a viable reexamination system. The general thrust of S. 1679 parallels the thinking of the Administration on this subject. We look forward to working closely with the Congress to develop appropriate legislation. In this effort, certain issues will require particularly careful consideration.

For example, what is to be the relationship between the patent reexamination process and patent-related litigation? One approach might be to forbid a party to a court proceeding from relying upon prior art which has not been considered by the PTO, either on initial examination or on reexamination, unless the court determines that such consideration is unnecessary for its adjudication of the issues of validity or infringement. This would encourage an initial sharpening and possible resolution of issues through a comparatively inexpensive and expeditious reexamination by the PTO. This could reduce or eliminate the full range of issues requiring resolution by expensive and time-consuming patent litigation.

An alternative approach would be to grant courts absolute discretion with respect to requiring reexamination and permitting the use of prior art in judicial proceedings. If a court, on its own initiative or on motion by a party, determined that PTO evaluation of newly discovered prior art would be beneficial, then it could stay the proceedings to permit reexamination to take place. This could have the advantage of enabling a trial judge to maintain complete control over the conduct of patent litigation based on the merits of the case and on the judge's own expertise. Present experience with reissue pro-

owner. A third party can question the validity of a patent only by means of a patent infringement or declaratory judgment action in Federal court. Almost always, infringement and declaratory judgment suits are expensive, protracted and uncertain as to outcome. They place special hardships on small businesses and individual inventors—those least able to finance and await the outcome of litigation.

In his October 31, 1979 Industrial Innovation Message to the Congress, the President announced several significant steps to improve the presumptive validity of issued patents and to reduce the cost and frequency of defending them in court. The subject of S. 1679—providing the PTO with the authority to reexamine patents, either on its own initiative or at the request of any person—is one of the steps announced by the President. In his Message, the President announced that legislation to accomplish this reform would be submitted to the Congress.

A reexamination system of the type that would be established by S. 1679 was strenuously urged during the President's Domestic Policy Review by the Industry Advisory Subcommittee on Patent and Information Policy. The advisory subcommittee, drawing on the wealth of patent expertise among its members, urged increased reexamination authority for the PTO as one of the changes most needed for the continued effective functioning of the patent system. Patent reexamination was advocated strongly by the Committee on Economic Development in its recent innovation study. The features of S. 1679 also have been widely endorsed by business and professional organizations concerned with the role of patents in promoting technology. The American Patent Law Association and the American Bar Association also have urged enactment of such legislation.

The patent bar and the technical communities agree that the PTO competently applies known prior art in judging the patentability of pending applications. A private study in 1974 concluded that the PTO and the courts reach the same decision regarding validity in the vast majority of cases when considering the same prior art. (Koenig, G., *Patent Validity—A Statistical and Substantive Analysis*, published by C. Boardman, N.Y., 1974, section 5.05). A PTO study in the same year reached a similar conclusion. As a matter of policy, there is no difference in the standard of patentability applied by the courts and the Office. The vast proliferation of technological information along with budgetary constraints, however, preclude the PTO from discovering and considering all relevant technical information during the initial examination process. Also, our search file integrity, which the President announced will be upgraded significantly, is far from a level that would assure a complete search. Accordingly, our patent examination system must balance the comprehensiveness of an examination against the need to complete the examination expeditiously. Faced with existing impediments, it

mendation was to institute patent reexamination. President Carter in his announcement of Industrial Innovative Initiatives on October 31, 1979, agreed with the subcommittee's findings and endorsed reexamination.

The Senate Judiciary Committee heard from nine witnesses on November 30, 1979, on the reexamination procedures contained in S. 1679 including Mr. Sidney A. Diamond, Commissioner of Patents and Trademarks, former Commissioner Donald W. Banner, representatives of the patent bar, and small and large businesses. The overwhelming consensus was that reexamination is a much needed reform of the patent system.

IV. Background

The PTO is now receiving over 100,000 patent applications per year for inventions that could be related to virtually any area of discovery. The office tries to make a decision on each invention promptly by considering it primarily against patents and printed publications to see if the new discovery qualifies for patent protection. As previously noted, the office does a very good job of determining patentability when it has all of the available materials to consider. Unfortunately, this is not always possible.

The tremendous growth in knowledge makes it impossible for the patent examiner to have access to all of the new technical data that is constantly coming out. In the field of chemistry alone the technical literature more than doubles every ten years. Other fields are not far behind in the quick accumulation of new information. The PTO must also consider foreign patents and has had its responsibilities expanded under the new Patent Cooperation Treaty. The Japanese, for instance, are issuing approximately 3,500 patents *a week!* It is clearly impossible for any patent examiner even under the best of conditions to be aware of all this material.

Unfortunately, the Patent and Trademark Office is not operating under the best of conditions. Constant underfunding of its operations has created a situation where a limited staff is trying to cope with a constantly increasing workload and is under pressure to make speedy determinations on whether or not to grant patents. The failure of the patent examiner to cite all of the relevant materials and patents in his report can be used to challenge the patent's validity in court. The problem is how can the PTO meet its responsibilities to the patent applicant for prompt issuance and still insure that all of the relevant materials have been considered? Reexamination has been proposed by patent experts as the best means for filling this gap.

Under patent reexamination as envisioned in S. 1679, whenever anyone wanted to challenge an issued patent on the basis of prior art patents or printed publications they would file a request with the Patent and Trademark Office along with a fee and the evidence that is relevant to the patent challenge. The patent holder would be informed of the challenge and would receive a copy of any cited material being used to question his patent. Within 90 days of receipt of this request, the Commissioner of Patents and Trademarks would issue an initial decision. If it was determined that the challenge was lacking in merit, the patent would be upheld and this decision could not be appealed. If

amended claim is subject to the provisions of section 252 of this title.

"§ 309. Reliance on art in court

"(a) No prior art patents or publications may be relied upon as evidence of nonpatentability in a civil action involving the validity or infringement of a patent unless—

"(1) such prior art patents or publications were cited by or to the Office during prosecution of the application for the patent or submitted for consideration by the Office in accordance with sections 302 and 303 of this chapter, and actually considered in accordance with section 304, or

"(2) the court, upon motion, concludes that the interests of justice would be furthered by adjudication of the issue of validity or infringement without such submission and reconsideration.

"(b) The limitation provided by this section shall not apply to any prior art patents or publications in the official file of the patent as it existed on the date of commencement of such action. However, a party may rely upon prior art patents or publications cited after the commencement of such action if—

"(1) such prior art patents or publications were included in a request for reexamination under the provisions of section 303 of this title which was filed in the Office during a stay ordered by the court under the provisions of section 310 of this title, or

"(2) the courts, in a case in which a stay requested under the provisions of section 310 of this title is denied, finds that such prior art patents and publications constitute newly discovered evidence which by due diligence could not have been discovered in time to be cited to and considered by the Office within the period of a stay that was or could have been secured under the provisions of section 310(a) of this title.

"§ 310. Stay of court proceedings to permit Office review

"(a) (1) Except as provided in paragraph (2), any party to a civil action against whom a pleading presents a claim for infringement or for adjudication of the validity of a patent shall have the right, by motion brought before any responsive leading, to secure a stay of all proceedings in the action by order of the court for a period, not more than four months, sufficient to enable such party to search for and cite patents or publications considered pertinent to the patent and to request reexamination of the patent in view of such prior art according to sections 302 and 303 of this chapter. If such party files a request for such reexamination in the Office and serves on the other party and files a copy of it in the action within the period of the stay provided by such order, the stay may be extended by further order of the court. Injunctive relief shall not be denied solely on the basis of such request for reexamination.

"(2) the reexamination of patents in the light of such prior art patents or publications.

"§ 302. Citation of art

"Any person may at any time cite to the Office prior art patents or publications which may have a bearing on the patentability of any claim of a patent. If the person citing such prior art patents or publications identifies in writing any part of the prior art patents or publications considered pertinent and the manner of applying the prior art patents or publications to at least one claim of the patent, such prior art patents or publications shall become a part of the official file of the patent.

"§ 303. Request for examination

"Any person may, at any time within the period of enforceability of a patent, request reexamination of the patent as to the patentability of any claim thereof in the light of any prior art patents or publications cited under the provisions of section 302 of this chapter, by filing in the Office a written request for such reexamination accompanied by a reexamination fee prescribed according to this title, a statement of the relation of such prior art to the patentability of the claim or claims involved, and a statement which identifies a material reason for the request of reexamination. Unless the requesting person is the patent owner, the Commissioner shall promptly send a copy of such request and statement to the patent owner appearing from the records of the Office at the time of the filing of the request.

"§ 304. Determination of issue by Commissioner of Patents

"(a) Within 90 days following the filing of a request for reexamination under section 303 of this chapter, the Commissioner shall make a determination as to whether a substantial new question of patentability affecting any claim of the patent concerned, not previously considered in examination or reexamination of such claim, is raised by the consideration, with or without any other prior art patents or publications, of the prior art patents or publications which have been cited in relation to the patent according to section 302 of this chapter. The Commissioner on his own initiative may make such a determination at any time.

"(b) A record of the Commissioner's determination under subsection (a) of this section and the reason for the determination shall be made in the file of the patent, and a copy of the record and reasons for the determination shall be sent promptly to the patent owner and each person requesting reexamination, and a notice of that determination shall be promptly published.

"(c) A determination by the Commissioner pursuant to subsection (a) of this section that such a new question of patentability is not so raised shall be final and nonappealable.

Presently, the PTO has a patent reissue program in effect, but this review of an issued patent can only be requested by the patent holder. The PTO and third parties cannot initiate a "reexamination" by reissue. This legislation will correct that deficiency. The experience that the Office has gained from running the reissue program should help to more successfully implement the provisions of S. 1679, which will supplement the present procedures.

Reexamination will also help the courts to resolve patent validity questions before them by providing the opinion of trained experts in the PTO.

A related problem is that the legal costs of court proceedings (estimated to easily reach $250,000 each to both parties)[1] often prevent independent inventors and small businesses from adequately defending their patents against large competitors. This situation has a very chilling effect on those—small businesses and independent inventors—who have repeatedly demonstrated their ability to successfully innovate and develop important new products. Patent reexamination will greatly reduce if not end the threat of legal costs being used to "blackmail" such patent holders into allowing patent infringements or being forced to license their patents for nominal fees.

The reexamination of issued patents can be conducted with a fraction of the time and cost of formal legal proceedings. Reexamination will help to restore confidence in the effectiveness of our patent system by efficiently bringing to the PTO's attention relevant materials that are missing or have been overlooked.

Big businesses are not immune to patent validity suits and often need the assurance of a strong patent to justify the millions of dollars and years of effort commonly needed to bring new products to the market. The present innovation and productivity lag is worsened by distrust of the current patent system. This serves to further fuel inflation and thereby to injure all Americans.

It should be stressed that patent reexamination must be coupled with adequate funding of the Patent and Trademark Office if it is to be effective. Patent reexamination by itself will not solve all of the problems of our patent system, but should help the PTO and particularly the courts to do a better job.

Patent reexamination will not affect patentability standards found in title 39 of the United States Code, rather it will establish a new procedure to allow all relevant documents to be brought to the PTO's attention. S. 1679 is limited in scope in that it will allow the PTO to only consider patents and printed materials, matters which are normally handled by patent examiners. Challenges to validity on other grounds (e.g., public uses or prior sales) would remain the province of the courts. Moreover, a court would in no way be bound by a decision of the PTO regarding the validity of a patent, though a reexamined patent would be entitled to a presumption of validity as if the newly considered prior art had been considered by the examiner during the original examination. Also, S. 1679 would not prohibit the courts from considering challenges to patents before such patents had been reex-

[1] Testimony of Mr. Donald R. Dunner, President, American Patent Law Association, to the Committee on the Judiciary, November 30, 1979.

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[96th Congress]

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