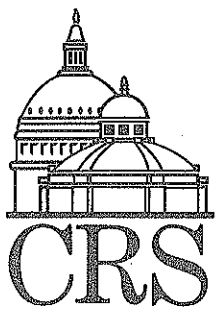
96-545 A

CRS Report for Congress

Moorhead-Schroeder Patent Reform Act: An Overview of H.R. 3460

Dorothy Schrader
Senior Specialist
American Law Division

June 13, 1996



The Congressional Research Service works exclusively for the Congress, conducting research, analyzing legislation, and providing information at the request of committees, Members, and their staffs.

The Service makes such research available, without partisan bias, in many forms including studies, reports, compilations, digests, and background briefings. Upon request, CRS assists committees in analyzing legislative proposals and issues, and in assessing the possible effects of these proposals and their alternatives. The Service's senior specialists and subject analysts are also available for personal consultations in their respective fields of expertise.

MOORHEAD-SCHROEDER PATENT REFORM ACT: AN OVERVIEW OF H.R. 3460

SUMMARY

The Moorhead-Schroeder Patent Reform Act, H.R. 3460, contains six titles dealing with various patent reform issues.

Title I -- the Patent and Trademark Office Government Corporation Act of 1996 -- establishes the Patent and Trademark Office (PTO) as a government corporation under the policy direction of the Department of Commerce, but with business-like authority to conduct operations relating to issuance of patents and registration of trademarks.

Title II -- the Patent Application Publication Act of 1996 -- primarily amends 35 U.S.C. §122 to require publication of patent applications 18 months after filing and amends 35 U.S.C. § 154(b) to extend the patent term to account for certain delays in patent prosecution. Patent term extensions up to 10 years (instead of the 5 years of current law) would be available in the case of appeals and unusual administrative delays; extensions would be available without limit for delays related to interferences or government secrecy orders.

Title III -- the Prior Domestic Commercial Use Act of 1996 -- would add a new section 273 to title 35 U.S.C. to provide a limited defense for good faith commercial use of a patented invention under certain circumstances. The defense allows an earlier innovator to elect the trade secret route rather than seek patent protection and to use the technology without liability for patent infringement.

Title IV -- the Inventor Protection Act of 1996 -- would regulate the activities of invention marketing services. A new Chapter 5 to Part I of title 35 U.S.C. would set out contract requirements for these services, subject to misdemeanor penalties and fines for failure to comply.

Title V -- the Patent Reexamination Reform Act of 1996 -- would amend several sections of title 35 U.S.C. (§§100 and 302-306) and add a new section 308 (with conforming amendments) to expand the participation of third parties in patent reexamination proceedings.

Title VI -- Miscellaneous Patent Provisions -- contains provisions dealing with abandonment of provisional applications, with international applications for plant breeder's rights, with plant patent rights, with attorney's fees against the United States for patent infringement, and with electronic filing of patent applications.

MOORHEAD-SCHROEDER PATENT REFORM ACT: AN OVERVIEW OF H.R. 3460

MOST RECENT DEVELOPMENTS

The House Subcommittee on Courts and Intellectual Property on May 15, 1996 marked up and reported to the House Judiciary Committee H.R. 3460, an omnibus patent bill entitled the "Inventor Rights Protection and Patent Reform Act of 1996."[1] The full House Judiciary Committee reported H.R. 3460 favorably on June 11, 1996 and renamed the bill the "Moorhead-Schroeder Patent Reform Act."

This report first provides background information about certain patent issues in the bill (primarily with respect to Titles I and II of the Reform Act) and then briefly summarizes the provisions of H.R. 3460.

BACKGROUND

PTO Corporation Proposal

The idea of separate agency status for the PTO was raised as early as 1980 by a recommendation of the American Bar Association. The National Academy of Public Administration (NAPA) studied the related idea that the PTO's operations could be appropriately carried out by a government corporation. In three reports, issued in 1985, 1989, and 1995, NAPA recommended corporate status for the PTO. The fact that the PTO is funded entirely by user fees is considered by some to justify corporation status.

Early Publication and Patent Term Extensions

Under 35 U.S.C. §122, a patent application must remain confidential until the patent issues. Other countries make patent applications public after a fixed period of time. As part of the effort to harmonize national patent laws with international standards, the Patent and Trademark Office's Advisory Commission on Patent Reform in March 1992 recommended that United States

---

[1] The bill consists of six titles: Title I -- Patent and Trademark Office Government Corporation Act of 1996; Title II -- Patent Application Publication Act of 1996; Title III -- Prior Domestic Commercial Use Act of 1996; Title IV -- Inventor Protection Act of 1996; Title V -- Patent Reexamination Reform Act of 1996; Title VI -- Miscellaneous Patent Provisions.

law be amended to require early publication of patent applications. In August 1994, the United States and Japan signed an agreement under which the Japanese Patent Office will end its practice of allowing third-party, pre-issuance oppositions, and the United States will introduce legislation to require publication of patent applications 18 months after filing.[2]

Before enactment of the Uruguay Round Agreements Act of 1994 ("URAA"),[3] the term for U.S. patents was 17 years from the date of issuance (except for design patents, which enjoy a maximum 14 year term). Since 1984, the patent term could be extended up to 5 years for human drug products, medical devices, or food or color additives subject to premarketing approval by the Food and Drug Administration (FDA).[4] The purpose of the extension was to encourage increased investment in research and development of such products by restoring time lost on the patent life pending FDA marketing approval.[5]

Article 33 of the Trade-Related Intellectual Property Standards of the 1994 General Agreement on Tariffs and Trade ("GATT") requires GATT members to apply a utility patent term of 20 years from earliest filing of the patent application. In agreeing to become bound by the GATT 1994, the United States arguably accepted the obligation of harmonizing its patent term with that of other developed countries by adopting a 20 year from filing term.

This deceptively simple requirement of a 20-year term from filing actually implicates some complex changes in the operation of the U.S. patent system. Some of the procedures and practices impacted by this change are: the incentives for patent applicants to push for early issuance; the efficiency and capability of the Patent and Trademark Office (PTO) to process all patent applications within 18-24 months instead of more than 3 years for at least a

---

[2] Note that the commitment under the agreement with the Japanese Patent Office is to *introduce* legislation. Neither the GATT nor any formal agreement binds the United States to adopt early publication. The Government of Japan might rethink its commitment regarding pre-issuance oppositions, however, if the early publication legislation is not enacted.

[3] Pub. L. No. 103-465, 108 Stat. 4809, Act of December 8, 1994, implementing the changes in United States law, including intellectual property laws, mandated by the Uruguay Round Agreements of the 1994 General Agreement on Tariffs and Trade ("GATT").

[4] Drug Price Competition and Patent Term Restoration Act of 1984, codified at 35 U.S.C. §156. The Act also facilitates FDA approval of generic drugs, which may be marketed only after expiration of the extended term for pharmaceutical product patents. A district court in Virginia has recently ruled that the extended term for such patents must be added to the new patent expiration date legislated by the URAA. *Merck & Co., Inc. v. Kessler,* 903 F. Supp. 964 (E.D. Va. 1995). By this decision, the district court invalidated decisions of the PTO and FDA.

[5] H.R. REP. No. 98-857, 98th Cong., 2d Sess. (1984), reprinted in U.S. CODE CONG. & ADM. NEWS 2647, 2648 (1984).

significant number of applications; the ability of patent applicants to rely upon trade secrecy; the benefits and feasibility of "submarine patenting";[6] and the desirability of early publication of patent claims.

Before adoption by the United States of 20 years from filing, patent applicants may have had generalized concerns about delays in patent issuance. These concerns were substantially muted, however, for these reasons: the applicants' ability to safeguard against potential infringers by patent pending notices; their ability to assert proprietary rights under trade secrecy law; the statutorily required confidential status of their claims pending issuance; and their right to obtain the full 17 years of patent protection from issuance. Provided the patent ultimately issued, the delays essentially had the effect of prolonging the patentee's exclusive rights.

Under the 20-years-from-filing provision, delays in patent issuance potentially shorten the period during which inventions can be marketed under the protection of the patent law. As discussed below, however, the law allows term extension under certain conditions.

The United States adopted a 20-year-from-filing patent term by enacting the Uruguay Round Agreements Act of 1994. The 20-year term applies to all patents issuing on applications filed on or after June 8, 1995 (i.e., 6 months after enactment of the URAA). This term may be extended up to 5 years to compensate for delays in patent issuance caused by an interference proceeding, a government secrecy order, or a successful appeal to the Board of Patent Appeals and Interferences or the Court of Appeals for the Federal Circuit.[7]

The URAA sets a special term for patents in force and patents issued on the basis of applications pending before June 8, 1995. For these patents, the greater of 20 years from filing or 17 years from issuance applies.

---

[6] "Submarine patenting" refers to a practice of deliberate delays by the applicant in prosecuting the patent application until the claimed technology is independently developed by competitors. Observers disagree about the prevalence and impact of the practice. An August 1995 PTO report discloses that nearly 70 percent of the "submarine patents" the PTO reviewed had been delayed by government secrecy orders rather than by the applicants. A recent court decision held a patent unenforceable under the doctrine of "continuing application laches." *Ford Motor Co. v. Lemelson,* 1995 WL 628330 (magistrate's opinion of June 16, 1995), confirmed and adopted by district court on April 11, 1996 (D. Nev. 1996) (unreported).

[7] The patent extension is allowed under these conditions provided the delay covers more than three years after filing. The extension is reduced by any period during which the patent applicant fails to act with due diligence in prosecuting the application.

SUMMARY OF H.R. 3460

The Moorhead-Schroeder Patent Reform Act consists of six titles: Title I -- Patent and Trademark Office Government Corporation Act of 1996 (which replaces H.R. 1659); Title II -- Patent Application Publication Act of 1996 (which replaces H.R. 1733); Title III -- Prior Domestic Commercial Use Act of 1996 (which replaces H.R. 2235); Title IV -- Inventor Protection Act of 1996 (which replaces H.R. 2419); Title V -- Patent Reexamination Reform Act of 1996 (which replaces H.R. 1732); and Title VI -- Miscellaneous Patent Provisions.

Title I: Patent and Trademark Office Government Corporation Act of 1996

Title I of H.R. 3460 establishes the Patent and Trademark Office (PTO) as a government corporation and agency of the United States, under the policy direction of the Department of Commerce, but with business-like authority to conduct its operations relating to issuance of patents and registration of trademarks. The PTO would be subject to congressional oversight. The management of the PTO would be vested in the Commissioner of Patents and Trademarks, who would be appointed for a six-year term by the President with the advice and consent of the Senate. The PTO would have authority to issue bonds; invest funds; use revenues without Office of Management and Budget apportionment; purchase, lease, construct and manage property; and award contracts.

The Commissioner would consult with a Management Advisory Board regularly on operation of the PTO and also before submitting budgetary proposals or making or proposing changes in user fees or regulations. The 12-member Board would be appointed for 4-year terms. The President, Speaker of the House, and President pro tempore of the Senate would each appoint 4 Board members.

In addition to directing the operations and policies of the PTO, the Commissioner would advise the President on domestic and international policy issues relating to patents and trademarks.

Title II: Patent Application Publication Act of 1996

Early publication of patents. The primary purpose of Title II of H.R. 3460 is to amend 35 U.S.C. §122 to require public disclosure of patent applications 18 months after the earliest filing date for which a benefit is sought. Upon request by independent inventors at the time of first filing, however, the application will not be published until 3 months after the first Patent and Trademark Office action pursuant to 35 U.S.C. §132, even if that occurs later than 18 months after filing. To qualify for this delay, the

independent inventor must also certify that no foreign patent filing has been or will be made.

Patent term extension. With respect to extensions of the 20-year term, H.R. 3460 would add the justification of an "unusual administrative delay" by the PTO in issuing the patent, to the three justifications already legislated by the URAA. Moreover, extensions up to 10 years (instead of 5 years) would be available in the case of appeals and unusual administrative delay. In the case of delays related to interferences or government secrecy orders, the patent could be extended for the period of delay without a cap.[8] The extension period is reduced, however, if the applicant fails to make "reasonable efforts to conclude processing or examination."[9] The Patent Commissioner prescribes by regulation the circumstances under which a patent extension period is reduced by failure of an applicant to make such "reasonable efforts." The PTO must establish procedures for contesting its determinations concerning patent term extensions.

H.R. 3460, unlike its predecessor H.R. 1733, creates statutory standards for determining what constitutes "unusual administrative delay."[10] Basically, if the Patent Office takes more than 14 months from filing to reject or allow a patent application, the patent is extended for the delay beyond 14 months. In the case of replies and administrative appeals, if the Patent Office takes more than 4 months to respond or act on an application, the patent is extended for the delay beyond 4 months. Also, if issuance takes more than 4 months after payment of the issue fee, the patent is extended for the period of the delay.

Provisional rights. The patent grant under H.R. 3460 includes the right to obtain a reasonable royalty, during the period between publication of the application and patent issuance,[11] from any person who makes, uses, offers for sale, or sells in the United States, or imports into the U.S., the invention or the patented process. The royalty right applies after publication of a domestic or

---

[8] H.R. 3460's removal of the cap on extensions for delays caused by interferences or secrecy orders is a significant change. Existing law caps extensions for any reason at 5 years. H.R. 1733, the predecessor bill, would have capped extensions at 10 years, whatever the reason for the delay.

[9] Existing law requires the applicant to act with "due diligence" to avoid attribution of the delays to him or her, with the consequent loss of extensions beyond 20 years from filing.

[10] Under H.R. 1733, the Commissioner of Patents would have prescribed by regulation the circumstances that constitute a delay and how to fix the period of delay. Senate bill S. 1540 ("Full Patent Term Preservation Act of 1996") also grants the Commissioner regulatory authority to define "unusual administrative delay."

[11] The royalty right attaches only upon patent issuance, but is made retroactive to the publication of the application. To obtain the royalty, the invention claimed in the patent must be substantially identical to the invention claimed in the published application. The royalty is available only in an action brought not later than six years after issuance.

international patent application, provided the user had actual knowledge of an English language version of the published application.

No new pre-issuance oppositions. Title II of H.R. 3460 does not operate to create any new opportunity for pre-issuance oppositions, and the Patent Commissioner may issue regulations to ensure this outcome.

Limited reexamination. The Patent Commissioner is to prescribe regulations to provide for limited reexamination of a patent and is authorized to reduce the fee by 50% for qualifying small entities.

Report on early publication. The Patent Commissioner must report to Congress on April 1, 2000 and annually thereafter regarding the impact of early publication on independent inventors.

Title III: Prior Domestic Commercial Use Act of 1996

This Title would add a new section 273 to title 35 U.S.C. to provide a limited defense for good faith commercial use of a patented invention under certain circumstances. A good faith prior user who began use of the technology before the patent filing date would be given a royalty-free license to practice the technology and any variations and improvements that do not infringe any specifically claimed subject matter of the patent.

In order to claim the defense, the user must prove commercial use of the technology or reduction to practice more than one year before the effective filing date of the patent. The user must have completed a significant portion of the investment needed to use the subject matter commercially and have made a commercial transaction in the United States before the patent filing date. After the patent filing date, the user must also diligently complete the remainder of the activities and investments needed for commercial use and promptly begin commercial use.

The prior commercial use defense allows an earlier innovator to elect the trade secret route rather than seek patent protection and to continue using that technology without becoming liable for patent infringement. The defense is personal to the person who actually uses the subject matter and is not a general license to the invention claimed in the patent. The prior user defense "rights" could be assigned, however, with the transfer of an entire business.

Title IV: Inventor Protection Act of 1996

The Inventor Protection Act would regulate the activities of invention marketing services. The bill targets the deceptive practices of fraudulent invention promotion companies who charge large sums of money for phony patent searches and worthless market research reports. A new Chapter 5 at Part I of title 35 U.S.C. would set out the requirements for contracts to be

offered by invention development services. Any invention marketing service that knowingly provides false or misleading statements or fails to make all disclosures required by the Act will be guilty of a misdemeanor and fined up to $10,000 for each offense.

Title V: Patent Reexamination Reform Act of 1996

Under existing law, if a third party requests reexamination of a patent and the Commissioner of Patents and Trademarks orders reexamination, the third party participates in the subsequent proceeding only if the patentholder files a statement in response. Many patentholders forego the opportunity to comment on the Commissioner's reexamination order to deny the third party the one opportunity to be heard granted by existing law.

The Patent Reexamination Reform Act would afford third parties an opportunity for greater participation in reexamination proceedings and an opportunity to appeal the Commissioner's decision on patentability. An amendment to 35 U.S.C. §302 would expand the basis for, and scope of, reexamination to include compliance with all aspects of the Section 112 disclosure and claim requirements, except for best mode. The bill also amends 35 U.S.C. §§100 and 303-306, and adds a new §308 (with further conforming amendments).

Title VI: Miscellaneous Patent Provisions

Title VI of H.R. 3460 contains miscellaneous provisions dealing with abandonment of a provisional application, with international applications for plant breeder's rights, with plant patent rights, with attorney's fees against the United States for infringing independent inventor-nonprofit organization-small entity patents, and with electronic filing of patent applications.