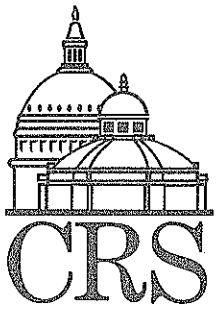
96-696 A

CRS Report for Congress

Overview And Comparison Of Omnibus Patent Reform Bills (S. 1961 And H.R. 3460)

Dorothy Schrader
Senior Specialist
American Law Division

August 20, 1996



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OVERVIEW AND COMPARISON OF OMNIBUS PATENT REFORM BILLS (S. 1961 AND H.R. 3460)

SUMMARY

The pending omnibus patent reform bills (S. 1961 and H.R.3460) propose reorganization of the Patent and Trademark Office (PTO) as a government corporation; early publication (generally at 18 months after filing) of patent applications (eliminating their confidential status before patent issuance under existing law); extension of the patent term to compensate for unusual administrative delays and for other specified reasons; expansion of third party participation in patent reexamination proceedings; recognition of a prior domestic commercial use defense to patent infringement; and other patent law reforms. Each bill consists of six titles, but not all of the titles cover the same general subjects.

The principal differences between S. 1961 and H.R. 3460 are that the Senate bill 1) includes the Copyright Office of the Library of Congress in the reorganization of the PTO, and 2) omits any proposal concerning regulation of fraudulent practices relating to invention marketing services (known as the "Inventor Protection Act of 1996" in H.R. 3460, Title IV). S. 1961 includes a provision not found in H.R. 3460 concerning attorney's fees: the Senate bill requires an award of attorney's fees to any small entity that prevails in a suit against the United States to compensate for the taking of a patent.

The substantive content of S. 1961 and H.R. 3460 is the same or essentially the same with respect to patent reexamination reform, the prior domestic commercial use defense, patent term extension for unusual administrative delays and other specified reasons, and the miscellaneous patent changes (provisional application priority date; priority date for foreign plant breeder's rights; elimination of prohibition against patenting tuber propagated plants; and electronic filing with the PTO). The bills are also in agreement on early publication of patent applications except that S. 1961 extends the option to delay publication until three months after the first PTO action to any inventor, whereas H.R. 3460 grants this option only to independent inventors.

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OVERVIEW AND COMPARISON OF OMNIBUS PATENT REFORM BILLS (S. 1961 AND 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, consisting of six titles.[1] The full House Judiciary Committee reported the bill favorably on June 11, 1996 with amendments and renamed the bill the "Moorhead-Schroeder Patent Reform Act," in honor of the co-sponsors, who are the Chairman and Ranking Minority Member, respectively, of the Courts and Intellectual Property Subcommittee.

Senator Hatch, Chairman of the Senate Judiciary Committee, on July 16, 1996 introduced S. 1961, an omnibus patent reform bill known as the "Omnibus Patent Act of 1996."

This report summarizes and compares S. 1691 and H.R. 3460 and provides background information on the major reform issues.

OVERALL SUMMARY

S. 1961 and H.R. 3460 are closely similar bills that propose reorganization of the Patent and Trademark Office (PTO) as a government corporation, early publication of patent applications, expansion of third party participation in patent reexamination proceedings, and other patent law reforms. Each bill consists of six titles, but not all of the titles cover the same general subjects.

The principal differences between the bills are that the Senate bill 1) includes the Copyright Office of the Library of Congress in the reorganization of the PTO and 2) omits any proposals concerning regulation of fraudulent practices relating to invention marketing services (Title IV of H.R. 3460). Although S. 1961 omits an entire title of H.R. 3460 ("Inventor Protection Act of 1996" -- Title IV), it is organized into six titles by using two titles (Titles II and III of S. 1961) to cover subjects dealt with in one title (Title II) of H.R. 3460.

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[1] 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;" and Title VI -- Miscellaneous Patent Provisions. The first five titles replace the following separately introduced House bills: Title I replaces H.R. 1659; Title II replaces H.R. 1733; Title III replaces H.R. 2235; Title IV replaces H.R. 2419; and Title V replaces H.R. 1732.

Thus, Title I of both bills deals with PTO corporation status but S. 1961 includes the Copyright Office in the proposed new government corporation.

Title V of both bills deals with patent reexamination, and the differences are minor.

Title VI of both bills deals with the same miscellaneous issues of provisional applications, international applications, plant patents and electronic filing without change, but S. 1961 adds a provision on attorney's fees not covered in H.R. 3460.

Title II of S. 1961 covers various issues related to early publication of patents in the same general way as Title II of H.R. 3460 except that in S. 1961 1) the right to defer early publication until three months after the first PTO action can be asserted by any inventor whereas H.R. 3460 extends this option only to independent inventors, and 2) all provisions relating to extension of the patent term for administrative delays, government secrecy orders, administrative or judicial appeals are placed in a separate Title III. The substantive content of the patent term extension provisions is the same in both bills.

Both bills contain the same substantive content with respect to the "Prior Domestic Commercial Use Act of 1996," but the proposal appears in different titles. In S. 1961, this proposal is Title IV. In H. R. 3460, it is designated Title III.

HIGHLIGHTS OF DIFFERENCES BETWEEN S. 1961 AND H.R. 3460

Title I: New Government Corporation

The Patent and Trademark Offices are now part of the Department of Commerce and operate under the direction of the Assistant Secretary of Commerce and Commissioner of Patents and Trademarks (one position). 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 of reorganization of the PTO as a government corporation. NAPA has recommended corporation status for the PTO in reports issued in 1985, 1989, and 1995. Since 1993, the PTO has been fully funded by user fees.

Title I of H.R. 3460 establishes the U.S. Patent and Trademark Office (USPTO) as an independent government corporation, subject to the overall policy direction of the Department of Commerce. S. 1961 adds the Copyright Office and calls the new corporation the United States Intellectual Property Organization (USIPO). The USIPO would also be subject to the policy direction of the Department of Commerce. The 126-year role of the Library of Congress in directing the Copyright Office would be ended, except that the Librarian

would serve as an *ex officio* member of the Management Advisory Board for the Copyright Office.

In contrast to government corporation status for the PTO, the idea of corporation status for the Copyright Office has not been seriously studied, although the 1985 NAPA report did suggest that the Copyright Office might be included with the PTO in a government corporation. That suggestion did not find support in the patent or copyright communities and has not been considered or studied further until S. 1961 was introduced.

Almost all of the differences between Title I of S. 1961 and of H.R. 3460 relate to S. 1961's proposal to include the Copyright Office.

The differences affecting the PTO alone are fairly minor, except that S. 1961 repeals the patent surcharge funding provision and H.R. 3460 does not. Other PTO-related differences are:

1) S.1961 creates a separate "front office" funded by equal contributions from the three independent offices for patent, trademark, and copyright processing;

2) in S. 1961 three separate management boards are created, whose members are all presidential appointees whereas H.R. 3460 has one management board and appointment authority is divided between the President, the Speaker of the House, and the president of the Senate;

3) in S. 1961, fees are set by regulation for patents, trademarks, and copyrights by the respective Commissioners after consultation with the management boards whereas in H.R. 3460 the fees are set by statute with authority given to the Commissioner to adjust the fees for inflation;

4) in S. 1961, the Commissioner of Intellectual Property serves at the pleasure of the President, whereas in H.R. 3460 the Commissioner of Patents and Trademarks serves for 5 years;

5) under S. 1961, the Commissioner of IP does not have authority to bargain collectively over basic employee pay and compensation, whereas the Commissioner in H.R. 3460 is required to bargain collectively over pay and compensation, subject to certain limitations.

S. 1961's inclusion of the Copyright Office in the new government corporation necessarily implicates many differences between the bills, which will not be further described in this summary since H.R. 3460 has no comparable provisions.

S. 1961 also makes important changes in copyright operations even beyond the fundamental reform of relocating the Copyright Office from the legislative

branch to a new government corporation with policy links to the Department of Commerce in the executive branch. Among these changes are the following:

1) the Copyright Office, which now recovers about 60 percent of its costs through user fees, must recover 100 percent of costs through fees and must contribute one-third of the budget of the Office of the Commissioner of IP;

2) appeals of registration determinations of the Copyright Office, which are now processed informally must be made formally to a new Copyright Appeals Board;

3) judicial review of Copyright Office registration determinations, which can now be made to any U.S. district court, must be made to the Court of Appeals for the Federal Circuit;

4) the recently established Copyright Arbitration Royalty Panels (CARPs),[2] which adjust certain compulsory licensing rates and distribute compulsory licensing royalties to the appropriate rightsholders, would be abolished and replaced by proceedings before a single administrative law judge, except that the CARP procedure would be retained for 17 U.S.C. §119 satellite carrier license proceedings.

Title II: "Patent Application Publication Act of 1996"

Under existing United States patent law (35 U.S.C. §122), a patent application must remain confidential until the patent issues. Virtually all foreign countries require publication of pending patent applications after a fixed period of time. As part of the effort to harmonize national patent laws and develop international standards, the Patent and Trademark Office's Advisory Commission on Patent Reform in March 1992 recommended that United States law be amended to require publication of patent applications 18 months after filing.

Title II of both bills would amend 35 U.S.C. §122 to require public disclosure of patent applications generally 18 months after the earliest filing date for which a benefit is sought. H.R. 3460 allows independent inventors who forego foreign patents to request a delay in publication until 3 months after the

[2] The present CARP system under the direction of the Librarian of Congress was established by abolition of the Copyright Royalty Tribunal in December 1993 and transfer of its functions to the Library of Congress and the Copyright Office. The first CARP proceeding under this new system was convened in 1995 for distribution of the cable compulsory licensing royalties. The panel submitted its decision to the Librarian in 1996.

first PTO action on the application.[3] S. 1961 extends that option to any inventor who forgoes foreign patenting.

Another provision common to both bills grants provisional royalty rights from publication to patent issuance, assuming that the patent is granted and provided that the user had actual knowledge of an English language version of the published application.

Two provisions of H.R. 3460 are omitted from S. 1961. One provision requires a PTO report by April 1, 2000 and annually thereafter regarding the impact of early publication on independent inventors. The other provision authorizes the PTO Commissioner to issue regulations providing for limited reexamination of patents at a 50 percent fee reduction for small entities.

The major difference in Title II of the bills is organizational: S. 1961 places the important provisions regarding patent term extension for certain reasons in a separate title (Title III of S. 1961) rather than include them in Title II as H.R. 3460 does.

Title III of S. 1961: Patent Term Restoration

Before enactment of the Uruguay Round Agreements Act of 1994 ("URAA"),[4] the term for U.S. utility patents was 17 years from the date of issuance. United States law included one provision for extension of the term. Since 1984, the 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).

Article 33 of the Trade-Related Intellectual Property Standards of the 1994 GATT requires members to apply a minimum utility patent term of 20 years from filing.[5] The United States adopted a 20-year from filing term in the URAA. 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

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[3] The first PTO action generally does not lead to immediate patent issuance. In practice, the examiner more frequently requests that the claims be rewritten or rejects the application as filed. Several contacts between the examiner and the patent applicant are common before the patent ultimately issues. These contacts may consume months or years in some cases.

[4] 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").

[5] When the 1994 GATT standards were agreed upon, virtually all countries computed the term of patents from the date of filing rather than issuance.

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.[6]

The URAA also set 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.

With respect to patent term extensions, S. 1961 and H.R. 3460 have the same substantive content. The term extension or restoration provisions are found in Title III of S. 1961 and Title II of H.R. 3460 (SEC. 208). The bills would add a fourth justification for general patent term extension -- an "unusual administrative delay." Extensions up to 10 years (instead of the 5 years of existing law) 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 the delay without any cap. The extension period is reduced by any period during which the applicant fails to make "reasonable efforts to conclude processing or examination."

The bills also create statutory standards for determining what constitutes an "unusual administrative delay." Basically, if the Patent Office takes more than 14 months from filing to reject, allow or require amendment of 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.

Title IV of S. 1961: "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. The substantive content of Title IV of S. 1961 and Title III of H.R. 3460 is the same.[7]

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[6] 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.

[7] Title IV of H.R. 3460 covers subject matter omitted in S. 1961 -- the Inventor Protection Act of 1996. These provisions target the deceptive practices of fraudulent invention promotion companies who charge large sums of money for phony patent searches and worthless market research reports. H.R. 3460 establishes standard contract requirements. If a marketing service knowingly provides false or misleading statements or fails to make disclosures required by H.R. 3460, the service may be found guilty of a misdemeanor and fined up to $10,000 for each offense.

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 or improvements that do not infringe any specifically claimed subject matter of the patent.

In order to claim the defense, the good faith 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 use defense "rights" can be assigned, however, with the transfer of an entire business.

Title V: "Patent Reexamination Reform Act of 1996"

Under existing law, if a third party requests reexamination of a patent and the Commissioner of the PTO orders reexamination, the third party participates in subsequent proceedings only if the patentholder files a response to the Commissioner's order. Many patentholders apparently forego the opportunity to respond in order to deny the third party the opportunity to be heard on patent validity.

S. 1961 and H.R. 3460 contain identical substantive provisions that would broaden the basis for patent reexamination and the scope of the reexamination in order to increase third party participation in reexamination procedures and appeals. A reexamination will be granted where a substantial new question of patentability is raised based on prior art or failure to comply with the 35 U.S.C. §112 disclosure and claim requirements, except for the best mode requirement.

During reexamination, the patent owner would have the right to propose one limiting amendment to the patent and may also file a response to any reexamination action on the merits of the patent. The third party requester may respond within one month by filing written comments.

A third party requester would have the right to appeal any decision favorable to the patent. If the third party exercises this right of appeal, the requester is estopped in any future action from asserting patent invalidity of any claim found patentable on the appeal.

Title VI: Miscellaneous Patent Provisions

S. 1961 and H.R. 3460 contain the same miscellaneous patent reform provisions in Title VI, except that S. 1961 adds a provision requiring an award of reasonable attorney's fees to any small entity plaintiff who prevails in a suit against the United States to compensate for the taking of a patent.

The bills clarify the establishment of the priority date when filing a provisional U. S. application. To establish the priority date, the applicant must request that the provisional application be considered a regular application within 12 months of the provisional filing.

The bills also clarify that applications for plant breeder's rights filed in a foreign World Trade Organization (or a foreign UPOV treaty) member country have the same effect for purposes of the priority filing date as applications for utility patents.

The prohibition against patenting tuber propagated plants would be removed and patent protection would be extended to the sale of asexually produced parts of plants (such as flowers and fruits) as well as the entire plant.

The Commissioner of the USIPO (or the USPTO in H.R. 3460) could require the filing of papers on an electronic medium.