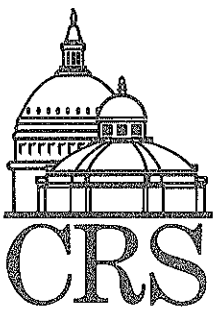
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CRS Report for Congress

Reorganizing the Administration of Patents and Trademarks: The Government Corporation Option (H.R. 400/S. 507)

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Reorganizing the Administration of Patents and Trademarks: The Government Corporation Option (H.R. 400/S. 507)

SUMMARY

The administration and enforcement of patent and trademark applications has come under review in recent years. The principal impetus for concern is the growing impact of technology on intellectual property rights and the increase in international competition for advantage in promoting industrial and informational innovation. Congress has addressed these issues on several occasions in recent years. In the 105th Congress, two bills (H.R. 400 and S. 507) intended to fundamentally restructure the organization and management of the patent and trademark function of government are under consideration. The House approved H.R. 400, as amended, on April 23, 1997, and the Senate Judiciary Committee favorably reported a substitute amendment to S. 507 on May 23, 1997. In both instances, the bills provide for the reorganization of the Patent and Trademark Office (PTO) of the Department of Commerce into an independent, wholly-owned government corporation.

Both H.R. 400 and S. 507 are omnibus bills of multiple titles. The full bills, with emphasis on policy issues, are discussed in another CRS report (*Patent Reform: Overview and Comparison of S. 507 and H.R. 400,* by Dorothy Schrader, CRS Report 97-591 A). This report is concerned solely with Title I of the respective bills, the title providing for the establishment of a government corporation. As reorganized, the PTO would be administratively independent of any executive branch department; however, for purposes of policy direction, it would remain under the secretary of commerce.

Proponents of reorganizing the PTO into a corporate body contend that it meets the criteria generally stipulated for corporate status: namely, it provides a governmental service that produces revenue sufficient to cover costs. Currently, however, the PTO is under a number of general management laws, (such as laws and regulations that impose personnel ceilings) making it difficult for PTO to meet increasing demand for its services. Corporate status, proponents argue, would permit needed financial and human resources flexibility to address changing circumstances. Opponents, including some independent inventors, small businesses, and universities, oppose Title I, arguing that the present agency within the Department of Commerce is performing its responsibilities well, and that necessary changes can be made without fundamentally altering the organization or its financial systems. The Clinton Administration generally favors a more radical change than that proposed in H.R. 400 and S. 507. The National Performance Review has supported a proposal to reorganize the PTO into a "performance based organization" (PBO) based on private sector entrepreneurial principles and practices. No legislation to reorganize the PTO into a PBO has been introduced thus far in the 105th Congress.

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Reorganizing the Administration of Patents and Trademarks: The Government Corporation Option (H.R. 400/S. 507)

Current Context

The 105th Congress has under consideration two bills (H.R. 400/S. 507) providing for a fundamental restructuring of the organization and management of the patent and trademark function of government.[1] This report is concerned solely with Title I of the two pieces of legislation noted above.

In the House, Representative Howard Coble, Chairman of the House Subcommittee on Courts and Intellectual Property of the Judiciary Committee, introduced H.R. 400, an omnibus bill originally of six titles addressing two broad purposes: (1) to reorganize the current Patent and Trademark Office (PTO) into a wholly-owned government corporation (Title I); and (2) to restructure the procedures for awarding patents and trademarks (Title II), extend and enhance the protections assigned inventors and users of patented technologies (Titles III and IV), and improve reexamination procedures for patents (Title V). Title VI addresses "miscellaneous improvements." Hearings were held by the House Subcommittee on February 26, 1997, followed by the House Subcommittee on Government Programs and Oversight on April 24, 1997. Amendments were considered and in a number of instances approved throughout the legislative process to include Floor Manager's Amendments and amendments offered during

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[1]For an overview and analysis of both H.R. 400 and S. 507 in their entirety with emphasis on the policy issues at stake, consult: U.S. Library of Congress, Congressional Research Service, Patent Reform: Overview and Comparison of S. 507 and H.R. 400, by Dorothy Schrader, CRS Report 97-591A, May 30, 1997.

The Hatch-Leahy substitute Amendment to S. 507 made a number of changes in Title I which will be discussed more fully in this report. Briefly, the major changes include: declares explicitly that nothing in the legislation alters the existing duties of the Register of Copyrights; creates what amounts to a new personnel system for the corporation exempt for Title 5 provisions; establishes two advisory boards that report to subordinates of the director of the corporation; reserves at least one seat on the Patent Office Management Advisory Board for independent inventors; creates an ombudsman position to advise the patent commissioner on concerns of independent inventors, nonprofit organizations, and small businesses; and further details and restricts the authority of the corporation to accept gifts and prohibits the acceptance of gifts from foreign countries.

floor debate. The full House debated[2] and later approved H.R. 400, as amended, on April 23, 1997.[3]

On March 20, 1997, Senator Orrin Hatch, Chairman of the Senate Judiciary Committee, introduced S. 507, a bill similar in many respects to H.R. 400 as originally introduced. The Senate Judiciary Committee held hearings on May 7, 1997, and reported out a bill in the form of a substitute amendment to S. 507 (Hatch-Leahy) on May 23, 1997. In the Senate bill, the name of the new corporation would be the Patent and Trademark Organization (Organization).[4] The Committee did not issue a report.

This report is concerned exclusively with Title I of the two respective bills. Title I in both instances provides for reorganization of the PTO into a wholly-owned government corporation under Title 31 of the U.S. Code, and also provides for the applicability and nonapplicability of many of the general management laws governing executive branch agencies.[5]

While the United States has long been the world's largest producer of intellectual property, this pre-eminence is being challenged. The current patent and trademark application procedures and practices appear to some to encourage unnecessary litigation and abuses of the system, a cost ultimately borne by domestic industries and consumers. The present PTO is, arguably, hampered in meeting new challenges by bureaucratic and financial requirements unrelated to achieving the agency's mission. In some instances, other nations now have what may be characterized as better patent protection for their inventors, small businesses and industries. Some in Congress see in these changing circumstances a challenge to the fundamental basis for encouraging and protecting American intellectual property rights.

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[2]U.S., *Congressional Record*, daily edition, vol. 143, April 17, 1997 pp. H1629-H1684.

[3]U.S., *Congressional Record*, daily edition, vol. 143, April 23, 1997, pp. H1719-H1742. The bill, as passed, included a floor amendment which eliminated one of the titles; thus H.R. 400 has five titles.

[4]There is a degree of confusion respecting the titles and nomenclatures used in the two bills when referring to the corporation generally, and its subordinate units. The PTO designation is used to designate the new corporate structure generically as provided in both bills, but where the Senate bill alone is discussed, the term Organization will be employed.

[5]For a review of the general management laws applicable to agencies, consult: U.S. Library of Congress, Congressional Research Service, *General Management Laws: A Selective Compendium*, by Ronald C. Moe, CRS rept. 97-613GOV, (Washington: CRS, 1997).

Historical Context

The issues and concerns surrounding intellectual property rights are as old as the republic and, indeed, were debated at the Constitutional Convention of 1787. The delegates wrote and approved in Article I, Section 8, clause 8, a provision concerning the protection of rights of persons to their intellectual property: "Congress shall have power to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The protection of these rights was accepted as a fundamental national responsibility not to be abridged by the states.

Initially, in 1790, a Patent Board was established consisting of the secretary of state, secretary of war, and the attorney general. Soon thereafter, in 1793, the board was abolished and the Patent Office was given agency status in the Department of State, where it remained until 1849, when the agency was transferred to the new Department of the Interior. In 1925, the Patent Office was transferred to the Department of Commerce, where it remains today as the Patent and Trademark Office.[6]

In 1865, Congress passed legislation depriving PTO of authority to use its fee income directly to pay for operating expenses. From that time forward, fees received were deposited in the U.S. Treasury and the PTO relied on annual congressional appropriations for its funding. This distinction and break between fees charged and the cost and amount of services rendered has been a critical factor in the ongoing administration of the PTO. Over the years there have been several major pieces of legislation passed updating the authorities, resources, and practices of the PTO.

In 1982, major increases in the fees charged for PTO services were instituted to more nearly reflect the actual cost of providing the services. Automated patent examination systems were instituted and other changes followed, including increasing fees again so that by 1991, PTO was fully self-supporting from fees. Congress, however, still was required to enact annual appropriations for the agency, and the agency was subject to presidential and departmental cuts in personnel and in funds available. Increasingly, executive branch personnel ceilings and limitations came to be viewed by interested parties inside and outside the federal government as major contributing factors hindering PTO's ability to obtain state-of-the-art technology and develop a highly competent staff to meet growing demands.

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[6]National Academy of Public Administration, *Incorporating the Patent and Trademark Office* (Washington: NAPA, 1995). National Academy of Public Administration, *Considerations in Establishing the Patent and Trademark Office as a Government Corporation* (Washington: NAPA, 1989). Also; George Cyrus Thorpe, *Federal Departmental Organization and Practice* (St. Paul: West Publishing Co., 1925), pp. 461-472.

In FY1995, 114,642 patents were issued and 71,553 patent applications were abandoned. PTO fee revenues for patent applications totaled $577.7 million. In FY1995, 75,342 trademark applications "matured to registration" while 42,214 trademark applications were abandoned. The trademark process generated $68.5 million for the agency.[7]

The PTO is headed by a commissioner who is also an assistant secretary (Executive level IV). The position, currently held by Bruce Lehman, is filled by presidential appointment and is subject to Senate confirmation (PAS). A deputy commissioner and two assistant commissioners are also presidential appointees (PAS).

Financial Issues and Current Practices

Given the current political climate, which calls for agencies to increasingly rely on their own sources of income to pay for operations, both bills, H.R. 400 and S. 507, seek to promote the protect the revenue streams flowing into the PTO.

In 1990, the PTO was charged with becoming a self-supporting agency through its system of charges and fees. Taxpayer support for PTO operations were eliminated under provisions of the Omnibus Budget Reconciliation Act of 1990 (35 U.S.C. 41). This act imposed a substantial fee increase (referred to as a "surcharge") on those seeking patents and trademarks. The consequences of returning the "surcharge" to the Treasury and requiring the approval of the Appropriations Committees for withdrawal are described in the Judiciary Committee's report:

> The revenues generated by this surcharge, $119 million, which constitute approximately 20% of the PTO's operating budget, are placed into a surcharge account. The PTO is required to request of the Appropriations Committees that they be allowed to use these surcharge revenues since it was generated originally from fees paid by users of the patent and trademark systems to support the cost of those systems.
>
> Unfortunately, experience has shown us that the user fees paid into the surcharge account have become a target of opportunity to fund other, unrelated, taxpayer-funded government programs. The temptation to use the surcharge, and thus a significant portion of the operating budget of the PTO, has proven increasingly irresistible, to the detriment and sound functioning of our nation's patent and trademark systems. Beginning with the diversion of $8 million in 1992, Congress has increasingly redirected a larger share of the surcharge revenue, reaching a record level of $54 million in the current year.

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[7]U.S. General Accounting Office, *Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services*, GAO/RCED-97-113 (Washington: GAO, 1997), p. 3, *passim*.

> In total, over the past six fiscal years, more than $142 million has been diverted from the PTO.[8]

The provisions of Title I in both bills were strongly influenced by what the committees believed was the mistaken financial practices of the past and the desire to insulate the fees generated from patent and trademark applications from political manipulation.

H.R. 400

Sec. 121(b) provides, in part, that "Moneys of the Office [PTO] not otherwise used to carry out the functions of the Office shall be kept in cash on hand or on deposit, or invested in obligations of the United States or guaranteed by the United States...." Such fees and retained funds can only be used for the processing of patent and trademark applications.

Sec. 121(c) provides that PTO is authorized to issue for purchase by the secretary of the treasury its debentures and other obligations. Borrowing, however, "shall be subject to prior approval in appropriations Acts." Such borrowings shall only be repaid from fees paid to the Office and surcharges appropriated by Congress.

Congress retains substantial authority at the policy and oversight level under subsection (b)(12) because, whereas PTO revenues are derived principally from fees paid for services, the fee rate schedule is set by Congress:

> Accordingly, Congress directly controls the budget of the PTO. Revenues are not derived from appropriated, general taxpayer funds. This statement recognizes current conditions of the PTO. Since FY1993, the Office has relied upon user fees for all its revenues. Except for restrictions on required surcharge fees under provisions of section 10101 of the Omnibus Budget Reconciliation Act of 1990, all funding is available to the Office for the conduct of its affairs. The authority granted to the PTO in this charter is consistent with that prevailing prior to incorporation under the Act, excepting certain restrictions associated with the appropriation and apportionment processes. Exemption from the apportionment process affords flexibility to the PTO in the management of its financial resources to enhance operating efficiencies.[9]

S. 507

Sec. 117(a) provides that the Organization and each Office of the Organization "shall be funded entirely through fees payable to the United States Patent Office and the United States Trademark Office," the latter being subunits

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[8]U.S. Congress, House, Committee on the Judiciary, *21st Century Patent System Improvement Act*, H.Rept. 105-39, 105th Congress, 1st session (Washington: GPO, 1997), pp. 31-32.

[9] *Ibid.*

of the Organization. The Organization is authorized to issue debentures and other obligations, subject to prior approval in appropriation Acts, to be purchased by the secretary of the Treasury.

The organizational mechanism selected in both bills to address PTO's organizational, financial, managerial, and procedural problems is the wholly-owned government corporation.

Government Corporations: What Are They?

The distinguishing characteristic of a government corporation, as traditionally understood in the American context, is that it is an agency of the United States, established by Congress to perform a public purpose, provide a market-oriented service, and produce revenue to meet or approximate its expenditures.[10]

In 1945, partly in response to the proliferation of corporate bodies created for the war effort, Congress passed the Government Corporation Control Act (Control Act) (31 U.S.C. 9101-9110). The act provides for standardized budget, auditing, debt management, and depository practices for corporations. Notwithstanding unusual provisions that may be present in their enabling statute, government corporations remain "agencies" of the United States and are therefore subject to all laws governing agencies, except where exempted from coverage by provisions of the general management laws or by provision in the enabling act of the corporation. Employees of government corporations are considered to be employees of the United States although they may be exempted from selected civil service laws and regulations either as part of a class or on an agency specific basis.

In an effort to provide criteria to determine when the corporation option is appropriate, President Harry Truman, in his 1948 budget message, stated:

> Experience indicates that the corporate form of organization is peculiarly adapted to the administration of government programs which are predominantly of a commercial character—those which are revenue producing, are at least potentially self-sustaining and involve a large number of business-type transactions with the public.[11]

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[10]There are, at present, some 25 government corporations conducting a wide variety of functions (e.g., Tennessee Valley Authority; Federal Deposit Insurance Corporation). The corporate title has, on occasion, been used to designate agencies having no commercial function and which produce little or no revenue (e.g., Legal Services Corporation; Corporation for National and Community Service). See: U.S. Library of Congress, Congressional Research Service, *Federal Government Corporations: An Overview*, by Ronald C. Moe, CRS rept. 97-345G (Washington: CRS, 1997).

[11]U.S. Congress, House, *Document No. 19*, 80th Congress, 2nd session (Washington: GPO, 1948), pp. M57-M62.

Proponents of reorganizing PTO into a corporate body contend that it meets the criteria stipulated above for government corporations. They further contend that the objective is to provide financial flexibility to PTO so that it can meet the demands of the public, whether greater or lesser, with maximum rapidity and efficiency. PTO already has a fee structure sufficient to cover expenditures; what it lacks, according to proponents, is the authority to develop and train its own workforce, install information systems appropriate to its mission, and set aside sufficient funds for future capital investments. The infrastructure of PTO must be developed, they argue, so that the major policy and operational objectives of the remaining Titles of the legislation can be met.

While most opposition to H.R. 400 and S. 507 is centered on policy issues, such as whether to exempt small businesses, independent inventors, and universities from pre-issuance publications requirements, there is also some opposition to Title I. Two recently organized groups, the Alliance for American Innovation and the National Patent Alliance, have made their opposition known. The Alliance is composed principally of independent inventors, small businesses, and universities. They argue that the primary beneficiaries of the reorganized PTO will be the larger corporations who engage in foreign patenting. "It [the reorganized PTO] will radically change the U.S. patent system to mirror that of Europe and Japan.... This bill [the criticism was directed specifically at H.R. 400] will corporatize the judicial function of the Patent Office in granting patent rights, which is a 'core federal function' of the government."[12] The National Patent Association believes that H.R. 400 privatizes the patent process. "In this title (Title I), HR. 400 specifically calls for privatization of the U.S. Patent Office. Again, reversing 200 years of U.S. patent practice wherein America's inventors and their patent applications were protected by the U.S. Government, the Patent Office is now to be converted to a private corporation."[13]

Whatever legitimate criticisms may be brought to bear on H.R. 400, it is incorrect to state that H.R. 400 privatizes PTO.[14] Government corporations remain agencies of the U.S. Government and are subject to all general management laws of the executive branch, except where they are exempted as a category of organization or by provisions in the enabling act. The two bills retain the presumption of coverage for the general management laws, such as the Administrative Procedure Act, applicable to all executive agencies. Several

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[12]Alliance for American Innovation, *Intellectual Property, America's Future Threatened by H.R. 400, '21 Century Patent System Improvement Act'*, Organizational Position Paper, February 25, 1997, p. 1.

[13]National Patent Association, *The 'Steal American Technologies Act,' H.R. 400*, Fact Sheet, (Southbury, CT: National Patent Association, 1997), p. 2.

[14]Concern that fiscal and personnel limitations placed upon PTO might result in patent examinations being "contracted" to private parties or in increased pressure to accept foreign patent findings led to the introduction of H.R. 812, "Patent Sovereignty Act," by Representative Hunter (February 25, 1997). This bill, among other things, provides that "All examination and search duties for the grant of United States letters patent are sovereign functions which shall be performed within the United States by United States citizens who are employees of the United States Government."

exemptions from such laws, however, are specifically provided for the PTO, such as the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 47) and the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11301). As will be discussed in a subsequent section, the Senate bill, S. 507, also provides for a substantial exemption not present in the House bill, namely, an exemption for PTO from personnel provisions of Title V, the title in the Code which contains most of the personnel and civil service provisions.

H.R. 400

H.R. 400; Sec. 111 of Title I provides:

> The United States Patent and Trademark Office is established as a wholly owned Government corporation subject to chapter 91 of title 31, separate from any department of the United States, and shall be an agency of the United States under the policy direction of the Secretary of Commerce. For purposes of internal management, the United States Patent and Trademark Office shall be a corporate body not subject to direction or supervision by any department of the United States, except as otherwise provided in this title.

S. 507

S. 507; Sec. 111 of Title I provides:

> The United States Patent and Trademark Organization is established as a wholly owned Government corporation subject to chapter 91 of title 31, separate from any department, and shall be an agency of the United States under the policy direction of the Secretary of Commerce.

The last sentence of Sec. 111 of the House bill is not included in the Senate bill.

Major Authorities of the Corporation

Both H.R. 400 and S. 507 provide for the establishment of a wholly owned government corporation as provided in 31 U.S.C. 9101-9110. The corporation shall be an independent agency, not within an executive department for administrative purpose, but for policy direction, shall remain under the authority of the secretary of commerce.

As a government corporation, PTO (the PTO designation is used to designate the new corporate structure generically as provided in both bills, but where the Senate bill alone is discussed, the term Organization will be employed) would have certain specified powers assigned to it characteristic of all

government corporations. For instance, the corporate PTO under Section 112 of H.R. 400:

> (b)(3) may sue and be sued in its corporate name and be represented by its own attorneys in all judicial and administrative proceedings....
> (5) may adopt, amend, and repeal bylaws, rules, regulations, and determinations....
> (6) may acquire, construct, purchase, lease, hold, manage, operate, improve, alter, and renovate any real, personal, or mixed property, or any interest therein, as it considers necessary to carry out its functions.
> (11) may determine the character of and the necessity for its obligations and expenditures and the manner in which they shall be incurred, allowed, and paid, subject to the provisions of this title....

This latter provision provides the key to the financial flexibility characteristic of government corporations. PTO's use of its funds would be subject only to the restrictions in its enabling law and the relevant provisions of the Control Act and other laws specifically applicable to wholly-owned government corporations. The comptroller general no longer would certify the PTO's obligations and expenditures, an authority that permits the comptroller general to "disallow" expenditures. PTO would retain this authority. This method of operation is believed by the committee to be appropriate because the PTO's funds derive from its own revenues and receipts, not from taxpayer funds.[15]

In both bills the PTO is exempted from provisions of the Federal Property nd Administrative Services Act. The wording of the Senate bill (S. 507), Sec. 112 (c) reads:

> (7)(A) may make such purchases, contracts for the construction, maintenance, or management and operations of facilities, and contracts for supplies or services, without regard to the provisions of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 et seq.), the Public Buildings Act (40 U.S.C. 601 et seq.), and the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11301 et seq.).

With respect to gifts to the PTO, H.R. 400 does not authorize the PTO to accept monetary gifts while the Senate bill permits the PTO to accept gifts, subject to certain restrictions including a ban on gifts from foreign countries under regulations to be issued by the director of the PTO. Sec. 112(c) reads:

> (14) [The Organization] may accept monetary gifts or donations of services, or of real, personal, intellectual, or mixed property, in order to enhance libraries and museums operated by the

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[15] *House Report 105-39*, p. 51.

> Organization, support the educational programs of the Organization, or otherwise carry out the functions of the Organization.

The Senate responded to concerns that the PTO's ability to accept gifts offered potential for undue influence being exerted on the corporation, especially by foreigners, when it provided an additional provision further restricting the gift process.

> (d) Restrictions on Gifts -- Any acceptance of a gift or donation under subsection (c)(14) shall be subject to section 210 of title 18, United States Code. The Director shall establish regulations for the acceptance of such gifts and donations including regulation prohibiting gifts or donations to the Organization by foreign countries.

S. 507 contains a provision on Copyrights: "Nothing in this section [113(b)(7)] shall derogate from the duties or functions of the Register of Copyright." H.R. 400 contains no such provision.

S. 507 contains a provision for establishing an ombudsman in the United States Patent Office. "The Commissioner shall appoint an ombudsman to advise the Commissioner on the concerns of independent inventors, nonprofit organizations, and small business concerns." Sec. 114(3)(b)(2) No similar position is provided for the United States Trademark Office in S. 507, nor is such a position provided for in H.R. 400.

Organization and Management

The two bills are similar on most elements of organization and management for the proposed PTO corporation. The differences, however, while few in number, are substantive.

H.R. 400

The PTO's management authority is vested in a director, appointed by the President, confirmed by the Senate, and compensated at the Executive level III rank. The appointment is for a five-year term with no limitation on reappointment. "The Director shall be a person who, by reason of professional background and experience in patent or trademark law, is especially qualified to manage the Office," (Sec. 113 (a)(1)). The director may be removed from office by the President. The Director is to be the only officer in the corporation subject to Senate confirmation.

In connection with the term of office for director of PTO, the bill provides for a compensation schedule that includes a "performance agreement" between the director and the secretary of commerce. Sec. 113(a)(5), Compensation, reads in part:

> The Director shall receive compensation at the rate of pay in effect for level III of the Executive Schedule... and in addition, may receive as a bonus, an amount which would raise the Director's total compensation to not more than the equivalent of the level of the rate of pay in effect for level I of the Executive Schedule... based upon an evaluation by the Secretary of Commerce of the Director's performance as defined in an annual performance agreement between the Director and the Secretary. The annual performance agreement shall incorporate measurable goals as delineated in an annual performance plan agreed to by the Director and the Secretary.

This provision constituted a concession by the committee to the Clinton Administration; the latter had been seeking a broad based performance compensation system for the whole agency as part of a "performance based organization" (PBO) strategy for the executive branch. The need for and utility of a private sector style compensation system for executive agencies is still much in dispute.[16]

The director shall appoint a commissioner for patents and a commissioner for trademarks. "The Commissioner for Patents and the Commissioner for Trademarks shall be the principal policy and management advisers to the Director on all aspects of the activities of the Office that affect the administration of patent and trademark operations, respectively," (Sec. 113 (b)(1)).

The critical point to recognize is that in the House bill, it is the director who manages and is responsible for all functions of the corporation. The two commissioners appointed by the director only perform those responsibilities delegated to them by the director. Patents and trademarks are issued in the name of the director.

S. 507

The management authority of the Patent and Trademark Organization (Organization) is divided among three units in the Senate bill; (1) the Office of the Director; (2) the U.S. Patent Office; and (3) the U.S. Trademark Office. The Director is appointed by the President, subject to the advice and consent of the Senate and shall serve at the pleasure of the President, not for a fixed term in office as is the case in the House bill. The director is responsible for the management and direction of the Organization. The director shall be compensated at the Executive level III salary and in addition, may receive as a bonus, an amount which would raise total compensation to the equivalent of the Executive level II, based upon an evaluation by the secretary of commerce of the director's performance as defined in an annual performance agreement with the secretary.

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[16]See: "House Passes Bill to Create PTO Inc., and Reform Patent Law," *Patent, Trademark, and Copyright Journal*, 53(April 24, 19970, p. 539.

Sec. 114 provides that a United States Patent Office be "established as a separate administrative unit of the [Organization], where records, books, drawings, specifications, and other papers and things pertaining to patents shall be kept and preserved, except as otherwise provided in law." Sec. 114 (3) provides that "the management of the United States Patent Office shall be vested in a Commissioner of Patents, who shall be a citizen of the United States and who shall be appointed by the Director of the United states Patent and Trademark Organization and shall serve at the pleasure of the Director...." The commissioner will be paid at the Executive level IV rank although a bonus system is provided for pay up to the Executive level III rate.

Similar provisions are included for a United States Trademark Office. Both the Patent Office and the Trademark Office are established as "separate administrative units."

What is meant by the term "separate administrative units" is not entirely clear. Is the Patent Office the equivalent of another agency of government? Authorities appear to be assigned directly to persons subordinate to the director of the Organization. With respect to the issue of funding, Sec. 117 reads in part:

> (a) The activities of the United States Patent and Trademark Organization and each office of the Organization shall be funded entirely through fees payable to the United States Patent Office (under section 42 of title 35, United States Code) and the United States Trademark Office (under section 56 of the Act of July 5, 1946 (commonly known as the Trademark Act of 1946)), and surcharges appropriated by Congress, to the extent provided in appropriations Acts....

The Office of the Director does not, arguably, have full administrative authority over the Patent Office and the Trademark Office. Sec. 113(b)(2)(E) reads, in part:

> The Director may perform such personnel procurement, and other functions, with respect to the United States Patent Office and the United States Trademark Office, where a centralized administration of such functions would improve the efficiency of the Offices, by continuous unanimous agreement of the Director, the Commissioner of Patents, and the Commissioner of Trademarks. The agreement shall be in writing and shall indicate the allocation of costs among the Office of the Director, the United States Patent Office, and the United States Trademark Office.

At another point, the Director is required to ensure that "each such office is not involved in the management of any other office."

Policy Advice

The issuance of patents and trademarks is no longer a relatively straightforward, domestically oriented activity. The processing of patent and trademark applications is a complex process with vast implications for industries and international relations. Patents and trademarks are part, admittedly the major part, of what is generally referred to as intellectual property. The United States is a participant in numerous organizations and signatory to numerous treaties and agreements governing intellectual property rights. The means by which the U.S. Government develops a single position to represent the national interest involves many agencies and outside organizations working to achieve consensus. Policy making at the highest level necessarily involves advice from being sought and given from many key actors. Who gives advice to Presidents, department secretaries and international leaders representing the judgement of agencies legally accountable for the issuance process for patents and trademarks understandably is a critical issue. The two bills have different proposals for advising the President and secretary commerce on patent and trademark issues.

H.R. 400

Initially, H.R. 400 provided that the PTO director would advise the secretary of commerce and the President on matters involving patents and trademarks. When H.R. 400 was debated on the floor of the House, however, several Manager's Amendments were offered to the bill as reported by the House Judiciary Committee. One of the amendments was to add Subtitle D to Title I of the bill, an amendment providing for the establishment of a position and office titled "Under Secretary of Commerce for Intellectual Property Policy." The amendment, later approved as part of the bill passing the House on April 23, 1997 reads, in part, as follows:

> Sec. 151 Under Secretary of Commerce for Intellectual Property Policy
>
> (a) There shall be within the Department of Commerce an Under Secretary of Commerce for Intellectual Property Policy, who shall be appointed by the President, by and with the advice and consent of the Senate....
>
> (b) DUTIES - The Under Secretary..., under the direction of the Secretary of Commerce, shall perform the following functions with respect to intellectual property policy:
>
> (1) In coordination with the Under Secretary of Commerce for International Trade, promote exports of goods and services of the United States industries that rely on intellectual property.
>
> (2) Advise the President, through the Secretary of Commerce, on national and international property policy issues....
>
> (6) Advise the Secretary of Commerce on programs and studies relating to intellectual property policy that are

> conducted, or authorized to be conducted, cooperatively with foreign patent and trademark offices and international intergovernmental organizations....

This office, presumably to be located in the office of the secretary of commerce, would also have two deputy under secretaries; one for patent policy and the second for trademark policy. These deputy under secretaries would be appointed by the secretary.

The funding provisions for this Office are unusual, if not unique, in the federal government. It needs to be recalled that under the legislation, PTO would be administratively independent of the secretary of commerce and of the department. The funding provision reads:

> (7)(e) FUNDING - Funds available for the United States Patent and Trademark Office shall be made available for all expenses of the Office of the Under Secretary for Intellectual Property Policy, subject to prior approval in appropriations Acts. Amounts made available under this subsection shall not exceed 2 percent of the projected annual revenues of the Patent and Trademark Office from fees for services and goods of that Office. The Secretary of Commerce shall determine the budget requirements of the Office of the Under Secretary for Intellectual Property Policy.

Earmarking of monies from the revenues of an independent agency, in this case a government corporation, to fund a staff policy unit under a secretary of a department is, in all probability, unprecedented. In the case of this provision, up to 2% of the "projected annual revenues" of PTO would be available to the secretary of commerce for funding this office.[17]

Under this legislation, both the under secretary for intellectual property policy and the director of the Patent and Trademark Office would be responsible for advising the President, through the secretary, on domestic and international patent policies, agreements, and practices. The secretary of commerce shall be responsible for national and international policies respecting patents, trademarks, and related matters, working with the State Department and U.S. Special Trade Representative. The PTO director may advise the President on PTO activities in response to obligations of the United States under treaties and executive agreements, but only through the secretary of commerce.

It is worth noting that this provision to establish a new and separate office of intellectual property policy is not a housekeeping detail, but actually reflects a much larger debate going on both within and outside government. The use of the words "intellectual property" is itself a subject of dispute, since it suggests coverage well beyond patents and trademarks, to include the granting of copyrights, a function presently handled by the Library of Congress in the

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[17]Based upon a FY1998 Budget for PTO of $630 million, the proposed Office of Under Secretary for Intellectual Policy could have up to a $12.6 million budget.

legislative branch. There have been recent efforts to remove the Copyright Office from the Library of Congress and merge it with PTO in the executive branch. Opponents argue that the copyright function, being essentially a licensing process, is qualitatively different from the patent granting function, and that the former is properly located in the Library of Congress.

S. 507

S. 507 provides that (Sec. 113(b)(2)(B)) the Director of the Patent and Trademark Organization "shall advise the President through and under the policy direction of the Secretary of Commerce of all activities undertaken in response to obligations of the United States under treaties and Executive agreements, or which relate to cooperative programs with those authorities of foreign governments that are responsible for granting patents or registering trademarks. The Director shall also recommend to the President, through and under the policy direction of the Secretary of Commerce, changes in law or policy which may improve the ability of the United State citizens to secure and enforce patent and trademark rights in the United States or in foreign countries." This constitutes a notable difference between the Senate and House bills.

Without further review, this provision suggests that the director of the Organization would wear two hats, both policy and operations chief for the Organization and thus be leading a highly centralized agency. This perception, however, is perhaps misleading: the director of the Organization in S. 507 is not intended to be the "hands-on" operating chief of the Organization. Rather, that role is largely placed in the hands of two commissioners, one for Patents and one for Trademarks, who would administer their respective units under the guidance of the director. Insofar as the Office of the Director would have administrative functions, they would be ones agreed to by the director and the two commissioners in writing and unanimously. The point to note here is that this arrangement resembles to some degree the attempt in H.R. 400 to split the policy and management functions between two offices.

Personnel

The two bills have provisions for personnel systems and rules within Title I. While both bills provide that the officers and employees shall be officers and employees of the United States, the underlying bases for the personnel systems are substantially different.

H.R. 400

H.R. 400, Sec. 113, provides, in part, that the PTO director shall:

(3)(b)(2)(A) appoint such officers, employees (including attorneys), and agents of the Office as the Director considers necessary to carry out the functions of the Office; and

(B) define the authority and duties of such officers and employees and delegate to them such powers vested in the office as the Director may determine.

The office shall not be subject to any administratively or statutorily imposed limitation on positions and personnel and no positions or personnel of the Office shall be taken into account for purposes of such limitation.

These provisions illustrate two significant management doctrines. The first is that all authority in an agency should reside in the head of the agency, in this instance the director of PTO. It is the director who appoints officers and employees and defines their duties. Authority to perform these duties is delegated by the director to the officer and employee. What is delegated by the superior officer to a subordinate officer may be redelegated by the director either back to the director or redelegated to another officer or employee.

The second doctrine relates to the size of PTO. The previously noted provision effectively exempts PTO from the Federal Workforce Restructuring Act of 1994 (108 Stat. 11), an act that sets ceilings on total executive branch civil service FTEs (full time equivalent positions) by a number certain through FY1999. The corporation would also be exempt from any personnel limits established by Office of Management and Budget (OMB) directives or the Department of Commerce. As it now stands, when the Department of Commerce is ordered to decrease its personnel, PTO is assumed to absorb a proportionate reduction. Since PTO performs a market oriented activity in which persons requesting the service must pay for the cost of providing the service, arbitrary limitations or reductions in personnel will tend to limit the ability of PTO to meet market demand. It can also have the unintended effect of lowering the amount of fees collected, thereby, arguably, compounding the problem.

Since PTO is currently, and will continue to be under corporate status, a budget-neutral agency, proponents of the legislation and these exemptions argue that PTO should be permitted to hire the "correct" number and mix of employees to maximize their service deliver potential. This may mean that in the future the total number of employees may increase or decrease, depending on market demand, not on the political and budgetary exigencies of the administration or Congress.

Sec. 113(c) provides, in part, for the continued applicability of Title 5 to the PTO. Title 5 of the United States Code is the title that includes most of the provisions governing the hiring, training, compensation rates and other administrative provisions guiding agencies in their personnel practices. Title 5 also includes other general provisions such as the Freedom of Information Act. The provisions reads: "Officers and employees of the Office [PTO] shall be subject to the provisions of title 5 relating to Federal employees."

The working presumption of this provision is to assure that PTO is a regular agency of government for personnel purposes subject to all provisions

of Title 5 unless specifically exempted in this law or by other laws from coverage. The burden of proof thereby rests with those seeking exemption.

S. 507

The administrative and personnel authorities and practices as provided in S. 507 are based on different philosophical premises than those of H.R. 400. All personnel authorities and functions are **not** to reside in the director of the Organization for delegation. The pertinent provisions reads:

> Sec. 113(b)(2)(E) The Director may perform such personnel, procurement, and other functions, with respect to the United States Patent Office and the United State Trademark Office, where a centralized administration of such functions would improve the efficiency of the Offices, by continuous unanimous agreement of the Office, the Commissioner of Patents and the Commissioner of Trademarks. The agreement shall be in writing and shall indicate the allocation of costs among the Office of the Director, the United States Patent Office, and the United States Trademark Office.

These provisions might be interpreted to mean that the commissioner of Patents and the commissioner of Trademarks could object to the management and personnel administrative policy objectives of the director of the Organization and prevent the necessary "continuous unanimous agreement" from being consummated in the first place, or of continuing, if in place. In short, the traditional vertical lines of accountability asserted in H.R. 400 are modified in S. 507 to the extent that they provide independent authority directly to a subordinate of the director of the corporation.

S. 507, like H.R. 400, provides for an exemption of the Organization from the Federal Workforce Restructuring Act of 1994 (108 Stat. 11), an act setting ceilings on the total executive branch civil serviced FTEs by a number certain through FY1999. The rationale given for this provision of exemption is the same in the Senate bill as in the House bill.

A substantial difference between H.R. 400 and S. 507 concerns the applicability of Title 5 to the corporation. Under H.R. 400, all Title 5 provisions apply to the corporation unless a specific exemption is noted. The opposite presumption prevails with respect to S. 507.

> Sec. 113(e) INAPPLICABILITY OF TITLE 5, GENERALLY. Except as otherwise provided in this section, officers and employees of the Organization shall *not* be subject to the provisions of Title 5, United States Code, relating to Federal employees. (emphasis added)

This provision essentially reverses the presumption that generally prevails with respect to Title 5 personnel matters by providing that none of the provisions apply unless they are specifically mentioned in this statute. What follows, then, is a list of those provisions of Title 5 that apply to the

Organization. For example, "Subchapters II and III of chapter 73 relating to employment limitations and political activities, respectively" will apply.

As for compensation of employees, the following applies:

> Sec. 113(f)(2)(A) IN GENERAL. Notwithstanding any other provision of law, for purposes of applying chapter 7 of Title 5 [Rights and Duties of Agencies and Labor Organizations] of the United States Code, pursuant to paragraph (1)(D), basic pay and other forms of compensation shall be considered to be among the matters as to which the bargain in good faith extends under such chapter.
>
> (C) LIMITATIONS APPLY. Nothing in this subsection shall be considered to allow any limitations under subsection (d) to be exceeded.

The subsection (d) to which this provisions refers reads:

> (d) LIMITS OF COMPENSATION. Except as otherwise provided by law, the annual rate of basic pay of an officer and employee of the Organization may not be fixed at a rate that exceeds, and total compensation payable to any such officer or employee for any year may not exceed, the annual rate of basic pay in effect for level II of the Executive Schedule under section 5313 of Title 5, United States Code. The Director shall prescribe such regulations as may be necessary to carry out this subjection.

With respect to chapters 83 and 84 of Title 5 (retirement related), the Organization would come under these provisions with the following proviso: "(C) The United States Patent and Trademark Organization may supplement the benefits provided under the preceding provisions of this paragraph." Thus, the Organization may have a more generous retirement system than that operative for other agencies of government. Similar language could provide for more generous health benefits than is currently the case under Title 5.

The net effect of the general exemption by the Organization from Title 5 provisions, except where specifically provided that they shall apply, is to give wide discretion to the Organization to develop its own agency-specific personnel and compensation system. To proponents of these provisions, the government-wide system is viewed as rigid and unattractive and should be replaced by many personnel systems, especially in the case of the patent and trademark functions. Only with a flexible personnel and compensation system can the proposed Organization compete with the private sector and other agencies for the right mix of specialized personnel. Opponents of this approach, as exemplified in the H.R. 400, see in the proliferation of agency-specific personnel and compensation systems a situation where government agencies will be competing among themselves for a limited personnel pool, with other entities, often corporations, being at an advantage. More ominous in their view, is the fact that powers traditionally held by Congress and central management agencies in the executive branch are being transferred to agency leadership with a reduction of political accountability occurring in the process.

Management Advisory Board

Both H.R. 400 and S. 507 provide for the establishment of advisory committees although their characteristics differ considerably.

H.R. 400

The House bill, H.R. 400 provides for the establishment of a Management Advisory Board to consist of 12 members, four each appointed by the President, by the Speaker of the House, and the Majority Leader of the Senate. Not more than three of the four members appointed by each appointing authority shall be members of the same political party. The term of office for members is four years, with the President designating the chair of the advisory board, whose term shall be for three years.

The decision of the committee to have some advisory board members appointed by Congress runs contrary to the recommendation of the National Academy of Public Administration in its 1995 report:

> Under the Constitution, appointment of board members may be vested either in the President, by and with the advice and consent of the Senate, the President alone, or the heads of departments. Appointment by an agency is likely to reduce delays in filling positions, and to reduce the likelihood of appointments based solely on political considerations. Appointment by members of the Congress would be unconstitutional. (*Federal Election Commission v. NRA Political Victory Fund*, 6 F 3d.821 (D.C. Cir. 1993); *Buckley v. Valeo*, 424 U.S. 1 (1976).[18]

The duties of the board are to "review the policies, goals, performance, budget, and user fees of the PTO, and advise the Director on these matters." It is assumed by the committee that the nature of the advisory board's responsibilities are such that the persons selected "shall include individuals with substantial background and achievement in corporate finance and management." Also, within 60 days after the end of the fiscal year, the board is to prepare a report on the matters referred to above to be sent to the President, and to the Committees on the Judiciary of the House and Senate, and to be published for use of the public.

S. 507

Two separate Management Advisory Boards are provided for in S. 507, one for the United States Patent Office and one for the United States Trademark Office.

Sec. 114 of the bill provides for an amendment to Title 35, United States Code, of which Sec. 5 establishes a Patent Office Management Advisory Board. The Board is to consist of five members appointed by the President and who

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[18]National Academy, *Incorporating the Patent and Trademark Office*, p. 29.

serve "at the pleasure of the President," that is without fixed term. "Not more than 3 of the 5 members shall be members of the same political party and at least one member shall be an independent inventor."

The Board is to "review the policies, goals, performance, budget and user fees of the United States Patent Office and advise the Commission on these matters." The Board is to prepare an annual report on these matters to the Organization, the President, and the committees on the Judiciary of the Senate and House, and finally publish the report in the Patent Office Official Gazette. The Board will be paid at the daily equivalent of the annual basic pay for level III of the Executive Schedule. The members of the Board shall be considered "special government employees" within the meaning of section 202 of Title 18.

The commissioner of Patents, "after consulting with the Patent Office Management Advisory Board... and after full participation by interested public and private parties, may, by regulation, adjust the fees established in this section. The Director of the United States Patent and Trademark Organization shall determine whether such fees are consistent with the policy direction of the Secretary of Commerce."

A similar Management Advisory Board is provided in Sec. 54 for the United States Trademark Office. The involvement of the Management Advisory Board in management decision of the Trademark Office, however, is greater than is the case with the Management Advisory Board and the Patent Office.

With respect to the Trademark Office, the commissioner is to consult with the Management Advisory Board:

(I) on a regular basis on matters relating to the operation of the Office: and
(II) before submitting budgetary proposals to the Director of the United State Patent and Trademark Office for submission to the Office of Management and Budget on changing or proposing trademark user fees or trademark regulations.

In both cases, the Patent Office and the Trademark Office, the involvement of the Management Advisory Boards in agency management decisions is greater than is typically the case for advisory bodies for agencies. The detailed involvement raises possible questions as to the ability of corporate management to function in an expeditious and effective manner and also the appearance of possible conflict of interest involving private parties with interests in the management and decisions of the corporation. It is not clear in S. 507, for instance, where the director of the Organization fits in with the Management Advisory Boards. It is the President, through the White House Personnel Office, which selects the Board members and who serve at his pleasure, thereby eliminating the director completely from the advisory process.

Both the House and Senate bills are silent with respect to the applicability of the Federal Advisory Committee Act (5 U.S.C. Appendix; 86 Stat. 700) to the

Management Advisory Boards. Silence in legislation is generally interpreted to mean that the Act applies to an advisory body. In this instance, however, questions might arise with respect to S. 507 given its provision that the personnel provisions of Title 5 are inapplicable except where the legislation specifically expresses its application.

Discussion

Under provisions of the Constitution, Congress is given the power to provide protection to owners of intellectual property and in so doing assign to them legal rights with substantial economic consequences. It is an act of government to assign such rights, and thus the function of the Patent and Trademark Office is not a likely candidate for divestiture to the private sector.[19] The PTO, however, like most other government corporations, can "marketize" its function and be managed in with these factors in mind. The management objective of the PTO under H.R. 400 and S. 507 is not to make a profit, as that term is understood in the private sector, but rather to develop a user fee rate structure that will permit the operation of the agency to be conducted on a financially self-supporting basis. Such a fee rate structure would presumably take into account a number of factors essential to effective agency management: (1) depreciation allowances for replacing capital goods; (2) long-term educational and training requirements for a professional workforce; (3) investment in technological innovations; and (4) expedited application and litigation processes.

There has been considerable debate in recent years regarding the future of the patent and trademark function in the government. The subjects receiving the most attention, understandably, are those with the greatest policy implications. For instance, should current law (35 U.S.C. 122), which requires that patent applications remain confidential until the patent is issued, be changed to require, instead, early publication of patent applications? Such a change is one of the primary purposes of Title II of H.R. 400. Structural issues, on the other hand, covered for the most part in Title I of the two bills, have generally aroused less public interest. Both bills provide that the PTO will be a government corporation, but there are differing views as to the relationship of the Patent and Trademark elements of the corporation. Should they both be under a single Director with authority residing in this single official? Or, should the two functional units be essentially "separate administrative units" each with assigned authority directly in the hands of separate commissioners?

Structural and management issues, while generally of lower visibility than policy issues, are nonetheless critical to the performance of any new or existing agency. It makes a difference, for instance, how an agency is organized. Should

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[19]For a discussion of the distinctive legal elements of the governmental and private sectors, consult: Ronald C. Moe and Robert S. Gilmour, "Rediscovering Principles of Public Administration: The Neglected Foundation of Public Law," *Public Administration Review*, 55(March/April 1995): 135-146.

the PTO agency remain part of the appropriated funds system while charging user fees for services? Or, should the PTO become a government corporation which retains its revenues from services rendered? The leadership structure is also critical. Should the PTO have a "strong" director who manages through delegated authorities? Or, should management be divided organizationally to reflect a separation between "policy" and "operations?" Should the PTO remain under the executive branch civil service system (Title 5) with exemptions from the general personnel acts being specifically determined? Or, should the PTO have essentially its own, agency/corporate specific personnel system?

These questions, and others, indicate the importance of structure and management to the functioning of a contemporary government agency assigned a complex mission by Congress. A quality organization and management structure cannot itself guarantee an effective agency serving the public, but it is a necessary precedent condition.

On the other hand, structural issues, of arguably equal importance, have generally aroused less public interest. The Clinton Administration had earlier announced it was intending to propose that the PTO become a "performance based organization" (PBO), but legislation has not been forthcoming to date in the 105th Congress.