PATENT AND TRADEMARK OFFICE AUTHORIZATION ACT OF 1993

HEARING

BEFORE THE

SUBCOMMITTEE ON INTELLECTUAL PROPERTY AND JUDICIAL ADMINISTRATION

OF THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 2632

PATENT AND TRADEMARK OFFICE AUTHORIZATION ACT OF 1993

JULY 28, 1993

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PATENT AND TRADEMARK OFFICE AUTHORIZATION ACT OF 1993

WEDNESDAY, JULY 28, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTELLECTUAL PROPERTY
AND JUDICIAL ADMINISTRATION,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9.30 a.m., in room 2226, Rayburn House Office Building, Hon. William J. Hughes (chairman of the subcommittee) presiding.

Present: Representatives William J. Hughes, Jack Reed, Carlos J. Moorhead, Howard Coble, and Bill McCollum.

Also present: Hayden W. Gregory, counsel; Jarilyn Dupont, assistant counsel; Phyllis Henderson, secretary; Thomas E. Mooney, minority counsel; and Miriam Sohn, intern.

OPENING STATEMENT OF CHAIRMAN HUGHES

Mr. HUGHES. The committee will come to order.

Good morning. Today's hearing is to consider H.R. 2632, the Patent and Trademark Office Authorization Act of 1993, introduced by myself and Mr. Moorhead at the request of the administration.

In past years, the authorization hearings have provided an opportunity to consider new proposals and to review a number of internal problems and programs. The fact that this hearing will not address these matters in detail should not be taken as an indication that these matters have been resolved, or that the subcommittee has reviewed the efficiency of the operations of the Patent and Trademark Office. These issues will be reviewed at a future date and other witnesses will be given an opportunity to present their views.

The present hearing provides an opportunity for the administration to present its case for the proposed increase in trademark fees and to discuss the general operations of the Office.

The Patent and Trademark Office is essential to the development and protection of new products and improvements which are critical to the economic security of the country. It is still of concern to me that the agency is totally user-fee funded given the important Government functions performed by the Office. International negotiations on critical matters of intellectual property protections and the provision of patent and technology information to the public are examples of significant activities justifying some Government support.

I realize that this issue will have to be carried forward for another day. I intend, however, for the subcommittee to continue to monitor the operations of the Office to ensure that the public interest is being served.

[The bill, H.R. 2632, follows:]

103D CONGRESS
1ST SESSION

H. R. 2632

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal year 1994.

IN THE HOUSE OF REPRESENTATIVES

JULY 14, 1993

Mr. HUGHES (for himself and Mr. MOORHEAD) (both by request) introduced the following bill; which was referred to the Committee on the Judiciary

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A BILL

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal year 1994.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Patent and Trademark Office Authorization Act of 1993".

SEC. 2. AUTHORIZATION OF AMOUNTS AVAILABLE TO THE PATENT AND TRADEMARK OFFICE.

(a) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Patent and Trademark Office for salaries and necessary expenses

$103,000,000 for fiscal year 1994, to be derived from deposits in the Patent and Trademark Office Fee Surcharge Fund established under section 10101 of the Omnibus Budget Reconciliation Act of 1990 (Public Law 101–508), as amended by the Patent and Trademark Office Authorization Act of 1991 (Public Law 102–204).

(b) REVENUES.—There are also authorized to be available, to the extent provided in advance in appropriation Acts, the revenues collected during fiscal year 1994 from fees under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 and following).

SEC. 3. AMOUNTS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated or made available pursuant to this Act shall remain available until expended.

SEC. 4. ADJUSTMENT OF TRADEMARK FEES.

Notwithstanding the second sentence of section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)), the Commissioner of Patents and Trademarks is authorized in fiscal year 1994 to adjust the fee for filing a trademark application without regard to fluctuations in the Consumer Price Index during the preceding twelve months.

SEC. 5. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not, during fiscal year 1994, enter into any agreement for the exchange of items or services (as authorized under section 6(a) of title 35, United States Code) related to automatic data processing resources (including hardware, software and related services, and machine readable data). The preceding sentence shall not apply to an agreement made in full compliance with all Federal procurement regulations or to an agreement relating to data for automation programs which is entered into with a foreign government or with an international intergovernmental organization.

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Mr. HUGHES. I would like to move on now to the only witness, and that would be the Commissioner. However, first I would like to recognize the gentleman from California, the distinguished ranking Republican, Mr. Moorhead.

Mr. MOORHEAD. Well, thank you, Mr. Chairman, and I certainly would like to join you in welcoming the Commissioner here this morning. We're always glad to have Mr. Kirk here with us.

I would like to commend you for scheduling these hearings and for your continued leadership in this important area. We have struggled with the Budget Reconciliation Act since its inception in 1990. Not only did that act force a 69-percent increase in fees paid by the users of the PTO, but it also converted that Office into an agency which is now 100 percent user-fee funded.

The worst part, however, is that some of the fees collected from patent applicants are not being used to support the examination and issuance of patent applications. To date, the Appropriations Committee has withheld over $20 million in user fees. To the best of my knowledge, this money was withheld so that it could be appropriated to other programs that were of a higher priority to the Appropriations Committee.

The chairman and I have strongly objected to this process. Maybe we can write something into this legislation before us today that would prevent this from happening.

Another issue which is important to the operation of the PTO is to defeat the Eleanor Holmes Norton amendment. This is an amendment added in the House to the reconciliation bill that would prohibit Federal agencies from giving cash bonuses to their employees. The purpose of this amendment is to ensure that locality-based comparability pay is implemented in Washington, DC, in 1994. I don't know about other agencies, but for the PTO, it will not save the taxpayers any money, because the PTO is 100 percent user-fee funded. Unless this is knocked out in conference, it will have dire consequences for the PTO. If this amendment were to become law, it would set that Office back 10 years, and undo all the gains which the subcommittee has worked so hard to achieve.

I hope our very able witness this morning, Mr. Kirk, can bring us up to date on these issues. I thank you.

Mr. HUGHES. I thank the gentleman.

Our witness this morning, as I indicated, is Michael Kirk, who is presently the Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks, and has been since February 15, 1993. In the past few months, he has testified several times before this subcommittee, so he really is no stranger. We're quite familiar with his experience and his accomplishments. We again welcome you this morning.

Commissioner, we have your statement, which without objection will be made a part of the record in full. We hope you can summarize for us.

STATEMENT OF MICHAEL K. KIRK, ACTING ASSISTANT SECRETARY OF COMMERCE AND ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. DEPARTMENT OF COMMERCE

Mr. KIRK. Well, thank you, Mr. Chairman, and thank both you and Mr. Moorhead for introducing our authorization bill.

As you know, our program level proposed by the President for this coming fiscal year is $518,692,000. Of that, $103 million will be deposited into the fee surcharge fund established by OBRA that was referenced by Mr. Moorhead a moment ago. The rest will come from fees collected from the remainder of the operations of the Office.

As alluded to by Mr. Moorhead, $20 million has already been withheld from us from that surcharge. And, this year, the House and Senate Appropriations Committees have approved an appropriation which would withhold an additional $14.7 million from the surcharge fund. Therefore, the total appears to be approaching $35 million with this most recent withholding.

The fiscal year 1994 program represents a $45 million increase over the program enacted for last year, which was $473.7 million. The additional income to fund this program will come from increases in services or the workload to be processed, and an increase in the trademark application filing fee.

We will not increase any other fees during fiscal year 1994. This standstill in other fees is a result of measures ordered by President Clinton that will save the Office $14.8 million in fiscal year 1994, and a reduction granted by GSA on the rates paid for leased space that will save the Office $6.8 million.

The central part, really, of the authorization legislation that we have submitted to the Congress this year, is section 4. It would permit the Commissioner to raise, in fiscal year 1994, the trademark application filing fee beyond the level that would be permitted if we were limited to fluctuations in the Consumer Price Index (CPI) during the past 12 months.

Given our current assumptions about workload in fiscal year 1994, we project that existing trademark fees, if raised only by the CPI would not generate enough revenue to fund the trademark-related functions of the Office. Instead of reducing the quality of trademark examination or increasing the pendency period of other services, we propose to increase, with the committee's approval, the trademark application filing fee.

We would like to set the fee to register a trademark per class at $245, rather than the current fee of $210. Other trademark fees will not be increased. And, in fiscal year 1995 and thereafter, trademark fees would remain limited by the CPI, so that we would not be able to go beyond that.

We believe that this will be adequate to fund the trademark operation in future years. Indeed, if we can achieve the savings that we are attempting to do in the trademark operation, we would consider forgoing even the full CPI index for trademarks as we have done with patents this year.

Mr. Chairman, I think that summarizes my prepared statement, and I would be happy to attempt to answer any questions.

[The prepared statement of Mr. Kirk follows:]

PREPARED STATEMENT OF MICHAEL K. KIRK, ACTING ASSISTANT SECRETARY OF COMMERCE AND ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to appear before the Subcommittee again. In my testimony today, I will describe our funding program and H.R. 2632, the Administration's authorization proposal for fiscal year 1994. We would like to thank you, Mr. Chairman, and Mr. Moorhead for introducing this bill at the request of the Administration.

The Administration again proposes to fund the Office solely by fee income in fiscal year 1994. The program level proposed by the President for the next fiscal year is $518,692,000. It was recommended that all of the $103,000,000 that will be deposited into the Fee Surcharge Fund established by the Omnibus Budget Reconciliation Act of 1990 be used to fund part of the program and that the remainder of the program be funded from other fees collected by the Office. As you know, however, the House and Senate Committees on Appropriations only approved an appropriation of $88,329,000 from the Fee Surcharge Fund.

The fiscal year 1994 program represents a $45,020,000 increase over the program enacted for fiscal year 1993—$473,672,000. The additional income necessary to fund this program would come from increases in the services requested or workload to be processed (including patent applications), and an increase in the trademark application filing fee mentioned later. We will not increase any other fees during fiscal year 1994. This "standstill" in other fees is the result of measures ordered by President Clinton that will save the Office $14,846,000[1] in fiscal year 1994, and a reduction granted by the General Services Administration on the rates paid for leased space that will save the Office $6,759,000 in fiscal year 1994.

Of the $45,020,000 increase, $11,418,000 represents adjustments to the fiscal year 1993 program to compensate for inflation and other costs outside of our control. These adjustments comprise $12,328,000 to restore the funding reductions in the fiscal year 1993 enacted budget; $4,945,000 to fund the full-year cost in fiscal year 1994 of those hired in fiscal year 1993;[2] and $6,873,000 to compensate for inflation, offset by $5,969,000 due to administrative and personnel savings and of $6,759,000 in rates paid for leased space. The cost of processing the expected increase in workload is estimated to be $24,915,000. Development and implementation of programs in the automation area will cost $7,911,000. The remainder of the $45,020,000 increase will be used to fund quality programs including those to improve the quality of patent and trademark examination ($2,204,000) and to improve the examination of biotechnology patent applications ($217,000). This year, we plan to complete a project to automate the assignment process that was included in the quality programs portion of the budget in the past. As a result, we are able to reduce our base for quality programs by $1,645,000. This means we only need to request an additional $776,000 to fund the improvements we seek to make in this area next year.

Turning to H.R. 2632, subsection 2(a) would authorize $103,000,000 to be appropriated from the Fee Surcharge Fund established by the Omnibus Budget Reconciliation Act of 1990. In subsection 2(b), all fees collected during fiscal year 1994, but not deposited in the Surcharge Fund, would be authorized to be available to the Commissioner.

Section 3 continues existing provisions that permit fees collected pursuant to title 35, United States Code, and the Trademark Act of 1946, and any amounts appropriated or made available under the authority of section 2 of this Act, to be carried over and to remain available until expended. Similar provisions have been included in authorization and appropriation Acts for the Patent and Trademark Office since fiscal year 1983.

As provided currently in the second sentence of subsection 31(a) of the Trademark Act of 1946, trademark fees may only "be adjusted by the Commissioner once each year to reflect, in the aggregate, any fluctuations during the preceding 12 months in the Consumer Price Index." Section 4 of this Act would permit the Commissioner to raise, in fiscal year 1994, the trademark application filing fee beyond the level that would be permitted if limited to fluctuations in the Consumer Price Index (CPI) in fiscal year 1993.

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[1] Administrative and personnel savings will account for $5,969,000 of this total. The remainder, $8,877,000, will be saved by forgoing a pay raise in calendar year 1994.

[2] All salaries for new positions are lapsed by at least 25 percent during the first year authorized to reflect the fact that staff is not generally hired on October 1. The next budget then adds the amount of the prior year lapse in compensation and benefits.

Given the current assumptions about the workload in fiscal year 1994, the existing trademark fees, if only adjusted by the CPI, will not generate enough income to fund the trademark-related functions of the Office. Instead of reducing the quality of trademark examination, increasing the trademark application pendency period, or eliminating services to ensure that expenses do not exceed income, the Administration proposes to increase the trademark application filing fee. We plan to set the fee for an application to register a trademark, per class, at $245 instead of the current fee of $210. Other trademark-related fees will not be increased. In fiscal year 1995 and thereafter, trademark fee increases will again be limited by the second sentence of the subsection. Should future trademark revenues prove to be substantially greater than actual costs, we would, of course, consider forgoing the use of the Consumer Price Index inflator as in the case of the patent fees this year.

When the trademark fee provisions were last changed in 1991, the Congress decided to restrict increases in trademark fees to reflect fluctuations in the Consumer Price Index. Given the level of trademark fee reserves at the time, it was not thought necessary to increase the base fees for fiscal years 1992 and 1993. As the reserves have been depleted as we predicted, however, the base fees coupled with adjustments based on the Consumer Price Index are not sufficient to fund the trademark operation in fiscal year 1994.

Section 5 prohibits the Commissioner from entering into any exchange agreement for the exchange of items or services relating to automatic data processing resources, except those agreements made in full compliance with all Federal procurement regulations. This prohibition does not apply to agreements with foreign governments or with international intergovernmental organizations. This prohibition was contained in the last three authorization Acts.

Thank you. I will be pleased to answer any questions that you may have.

Mr. HUGHES. Mr. Kirk, why did the Patent and Trademark Office decide to increase only the application fees as opposed to other trademark fees?

Mr. KIRK. The application fee represents the largest and most certain fee that we have from the trademark user community. Some of the other fees tend, we think, to be a little price elastic, and it would become risky to count on these fees generating the revenue that we need.

We discussed this proposal with the U.S. Trademark Association, subsequently, the International Trademark Association, and explained the difficulties that we foresaw. We believe that they are in agreement that an increase in the trademark filing fee from $210 to $245 would be appropriate. However, they have conditioned this on their expectation and their understanding that we will try to achieve cost savings and to ensure that we run a tight and efficient trademark examining operation.

Mr. HUGHES. Has the proposed trademark fee increase been discussed with interested parties outside of PTO?

Mr. KIRK. We have, as I mentioned, discussed it with the International Trademark Association. We did raise this with their advisory committee that is an arm of that group, as well as with the president. It has been discussed, we understand, within the board of directors of that organization.

We have also informed the Intellectual Property Owners and the American Intellectual Property Law Association. Those two organizations have not responded positively or negatively, but we have informed them of our plans.

Mr. HUGHES. Have any responded either positively or negatively?

Mr. KIRK. Well, the International Trademark Association has responded positively, as I mentioned, with the condition that we ensure that we run a tight ship for 1994.

Mr. HUGHES. Did you anticipate the drawdown of reserves that has occurred since 1991?

Mr. KIRK. We did, Mr. Chairman. Back in 1992, we had sought a program level of approximately $480 million, and we were going for a 2-year program. After deliberations the program level for that year was set at $426 million by this committee. We then had the choice of how we set our fees in order to live within that $426 million limit.

On the trademark side, we had been contemplating a total budget for the trademark examining operation of $50 million. That was reduced to $37 million. It was done because of two factors. No. 1, we had reason to believe that the workload was going to be lower than had been forecast at a $50 million program level. Second, there was a significant fee surplus in the trademark examining operation.

So we knew when we took this step in 1992 that we would be able to rely on the surplus for a period of years. Unfortunately, that period was shorter than we might have liked, due to an expansion of the trademark examining operation space and the cost of a move. Therefore, we essentially have found that that surplus is about depleted, and we will need this fee increase in order to continue services at the level that we believe the user community wants.

Mr. HUGHES. And your lease expires in 2 years?

Mr. KIRK. Our leases expire in 1996 and 1997.

Mr. HUGHES. Where are you in the process of attempting to identify additional space?

Mr. KIRK. Well, we have now pending at OMB—or I should say the General Services Administration (GSA) has pending—on our behalf, their third proposed prospectus for additional space. This prospectus would obtain space for us for a 20-year lease period that would become effective in 1998. So the anticipation is that we would have an extension of our leases to the extent necessary from 1996-97 up until the time that we would move to new space or stay where we are in our existing space, but under a new lease.

Mr. HUGHES. When you say a prospectus, has space been identified?

Mr. KIRK. The area that we would seek to have the Office located in has been identified in the northern Virginia area. We believe that it would be appropriate to keep the Office either where we are in Crystal City or in some other area that is convenient both to our user community by way of an airport, such as out in the Dulles corridor, and that is also near some type of transit to facilitate our employees going back and forth.

Mr. HUGHES. Do you anticipate any reduction in trademark applications due to the increase in application fees?

Mr. KIRK. We do not. In fact, this year the trademark applications are running considerably above plan. We had planned 130,000 applications. We will probably approach 138,000 applications this year, and all signs are that that will continue. Our experience has been, quite honestly, that neither patent nor trademark application fees have much effect in filing rates.

Mr. HUGHES. Thank you.

The Chair recognizes the gentleman from California.

Mr. MOORHEAD. Thank you, Mr. Chairman.

If the Eleanor Holmes Norton amendment were to become law, what effect would that have on the PTO?

Mr. KIRK. It would have—and I don't want to overstate this—but extremely serious consequences, Mr. Moorhead, in all of our operations. We have arranged our award program in a way that provides tremendous incentives for our employees to produce more than would normally be expected.

In the patent examining operation, which of course is the largest, we have a program referred to as "gain sharing," where the examiners can get up to 9 percent of their annual salary by overproducing, or producing more work than they would be expected to produce at their salary and in the particular technology in which they work.

The award program induces them to perform as much as 30 percent more work during the year and by only paying a maximum of 9 percent of their total salary for this increase of up to 30 percent. It is extremely cost effective. We estimate somewhere in the range of 15,000 to 20,000 additional applications are processed annually under this gain sharing program, at a cost that is a fraction of what it would cost if we simply had to hire additional people to perform that work.

So without the ability to grant these awards, we think that the consequences for the Office in the outyears will be tremendous. And, we will have a rather significant morale problem this year. That's because we have had a lot of examiners and clerical support staff working extremely hard for the last 9 months in the expectation that by producing at these heightened levels, they will receive these awards. If this becomes effective and we are not able to grant the awards, one can anticipate that there would be a very significant morale problem, which we would very much like to avoid.

Mr. MOORHEAD. One of the problems, of course, which we've had, has been the Appropriations Committee taking user-fee funds and directing them toward unrelated projects. Do you have any ideas on how to persuade them or otherwise how we could keep that from happening?

Mr. KIRK. Well, some I can talk about and some I can't, I suppose. The Secretary and the Department have indicated that they will be supportive of an effort by the Office next fiscal year to attempt to avoid this problem by getting the Office out from under the OBRA surcharge.

So we are hoping to be able to propose some legislation that would address this problem in the coming year, so that effective in fiscal year 1995, that problem would no longer be with us. However, time will tell.

Mr. MOORHEAD. Mr. Kirk, do you have any words of wisdom which you would like to give to us about NAFTA or GATT negotiations?

Mr. KIRK. Mr. Moorhead, I can only say that I hope very strongly that both of them are approved. I think it would be good for the United States.

Mr. MOORHEAD. As far as GATT is concerned, I don't think many people really know what they're approving. On NAFTA, I think they've got a good idea right now—not a total idea, but just a concept.

Mr. KIRK. Of course, our responsibility and our role in the negotiations are limited to the TRIPS agreement in the Uruguay Round, and the IP chapter in NAFTA. At least we know that if a country is relatively comfortable with the IP chapter in NAFTA, they should also be relatively comfortable with the agreement on TRIPS in the Uruguay Round, because the two are very, very similar.

With respect to the many other agreements that are contained in the Uruguay Round on textiles and agriculture and others, I would defer to my colleagues from the Office of the U.S. Trade Representative and other agencies to ensure that there are proper explanations given for those.

Mr. MOORHEAD. Thank you.

Mr. HUGHES. The Chair recognizes the gentleman from Rhode Island.

Mr. REED. Thank you, Mr. Chairman.

I have just a couple of quick questions, Mr. Kirk. You have proposed to raise the trademark fee from $210 to $245?

Mr. KIRK. Yes, sir.

Mr. REED. Do you anticipate a significant fall-off in applications as a result of that increase?

Mr. KIRK. Mr. Reed, we do not. There has been, prior to this, a tremendous increase in the filing rate of applications. This year we're running well above what we had planned. We had planned to receive only 130,000 up from 125,000. We're running at almost 138,000.

Now, of course, that's without the fee increase. But in the past, both on the patent side and the trademark side, the filing rate has appeared to be rather insulated from the fees that we have charged. I'm sure there is a fee that would change that phenomenon, but we do not expect that the modest increase that we're talking about would have any effect.

Mr. REED. And it would provide sufficient moneys to carry out the President's program?

Mr. KIRK. Yes, it would.

Mr. REED. Thank you, Mr. Kirk.

Mr. HUGHES. I have just a couple more questions. You indicate in your statement that roughly $6.8 million is included to compensate for inflation; but that's to be offset, by and large, by almost $6 million for personnel and administrative savings. I wonder if you can tell us how many employees are impacted by that, and what types of jobs?

Mr. KIRK. Well, the personnel reductions are part of the Executive order of the President to reduce the FTE—the full-time equivalent ceilings—across Government. Our share for fiscal year 1994 will be 77 positions, and that's the bulk of that money. The other has to do with a 3-percent reduction in the funds spent for certain administrative costs, such as travel, transportation and the like.

In terms of the FTE reduction, this will not result in the actual loss of any positions in the Patent and Trademark Office. That is because we are in a situation where we are not at that ceiling at the moment, and we will look toward contracting out operations and finding other techniques to have the work done and live within that particular ceiling.

Mr. HUGHES. Is that going to save us any money, by contracting it out?

Mr. KIRK. Typically, if we contract out, it does not save us money.

Mr. HUGHES. My experience has been that in the long term, we end up paying more.

Mr. KIRK. I think that has been our experience, too, Mr. Chairman.

Mr. HUGHES. That's in addition to losing in-house capability, if, in fact, you continue down that road.

Mr. KIRK. In terms of the outyears and the FTE reductions that have been announced for the Government as a whole, we will be seeking an exemption from that for the Patent and Trademark Office. I cannot sit here and say that we will be successful, but in the past we have been successful. We have been because the Patent and Trademark Office is unique in the sense that we have people coming to us asking us for a service, and they are willing to pay for that service.

Therefore, unlike other agencies, we have a queue outside saying "Please give us this service." Then when we go to the Office of Management and Budget to seek relief from the ceilings, they have been sympathetic to that particular need. So hopefully in the outyears, we will be able to have some relaxation for the Patent and Trademark Office.

Mr. HUGHES. In the past, have you implemented contracts through the A–76 review process?

Mr. KIRK. We have done that, yes.

Mr. HUGHES. What has been your experience?

Mr. KIRK. I would say that it is a mixed blessing. Costwise, I think it tends to increase the cost.

Mr. HUGHES. In the outyears in particular?

Mr. KIRK. Yes. But there are other aspects to this. For example, we are in the process, as you know, of automating our Office. One of the things that we hope to do before the end of this decade is to achieve the ability to receive and process applications electronically.

When we do this, there will be a very significant savings in staff. That's because we won't need to handle all the paper that we currently have to handle through every step of the Office. As we move toward this automated system, contracting out certain of the functions that would otherwise disappear at some future point might be a way to soften the landing—going from where we are now to the electronic environment in our processing. Therefore, it's not totally negative in that sense.

Mr. HUGHES. So you're saying that that's one side benefit. But how much is that? Do we get fair value for what it costs us in the final analysis to contract out? I think you're saying that the one thing it's going to do is perhaps cushion the blow in that transition period, as you automate. How much of a factor is that, compared to the cost?

My own personal experience has been, with A–76 and contracting out, that the first year you get the contract, the contractors do a pretty good job. They know what, in fact, it's going to cost an agency to perform those services, they bid accordingly, and then they

jack the costs up as they move into the latter part of their contract. Has that been the experience at PTO?

Mr. KIRK. I am not in a position to respond to that question. I can provide an answer for you for the record. I do know that our experience, in general terms, has been that contracting out in the long term tends to be more expensive than doing it internally.

Mr. HUGHES. Is some effort being made by agencies such as PTO to attempt to inform the Office of Management and Budget on those issues?

Mr. KIRK. Yes, sir. That is certainly the case. In the management meetings in the Department of Commerce, Commissioner-designate Bruce Lehman reports that there have been discussions. This point has been made to the senior management in the Department of Commerce that a reduction of Federal employees and the replacement of those employees by contractor staff is, in many cases, a very short-term, unwise decision.

Mr. HUGHES. I understand, switching to WIPO, that our country requested that the meetings scheduled on patent law harmonization were postponed this summer because we were not prepared, really, to talk about patent law harmonization. The administration wanted more time. Is that accurate?

Mr. KIRK. Yes, sir.

Mr. HUGHES. And I suspect that the biggest concern is over filing—a first-to-file system as opposed to our present system. Am I correct in that?

Mr. KIRK. That is correct.

Mr. HUGHES. When are we going to be basically ready to talk, in your judgment, with other countries about just that? That's going to be the single most important issue, is it not?

Mr. KIRK. That is the cornerstone issue for the United States and, I think, for all the other countries involved. On that point, Mr. Chairman, our present plans are to hold extensive public hearings. We will begin these as soon as possible following Mr. Lehman's confirmation, and we will invite in all sectors of the public.

The concern that Secretary Brown had with respect to the Patent Law Harmonization Treaty and the issue of first-to-file was that there had not been significant vetting of this with the independent inventor and small business community. There was a concern that their voices had not been heard in the formulation of the policy leading up to the current text of the treaty.

Therefore, what we hope to do in these public hearings is to allow those voices, along with the other voices that haven't been heard in the past, to come in so that we can hear the views of all interested sectors. Then a decision will be reached as to whether moving to first-to-file, in the context of the Harmonization Treaty or otherwise, is in the Nation's best interest. Of course, we will be working with this committee and its counterpart in the Senate in reaching that decision.

Mr. HUGHES. Well, as you know, my counterpart in the Senate and I and our other colleagues have had joint hearings on the subject, and received some interesting testimony. What is your preliminary assessment of whether or not the U.S. patent community is ready to accept first-to-file?

Mr. KIRK. I think I would rather withhold that preliminary judgment until we conclude the hearings, Mr. Chairman.

Mr. HUGHES. I won't pressure you on that, because I'm hearing from the same people you are, obviously.

The Chair recognizes the gentlemen from North Carolina.

Mr. COBLE. I just want to extend my apologies, Mr. Chairman. I've had two other meetings. I have no questions, but I will review this subsequently.

Thank you.

Mr. HUGHES. The Chair recognizes the gentleman from Florida.

Mr. MCCOLLUM. I have the same problem, I'm afraid, Mr. Chairman, having just walked in. I apologize, Mr. Kirk, that we walked in a little late for this; but thank you.

Mr. HUGHES. I have just one additional question. You indicate that to improve the quality of patent and trademark examination, you basically are seeking $2.2 million, and $217,000 to improve the examination of biotechnology patent applications. I wonder if you can tell us what those funds will be utilized for to improve the operations?

Mr. KIRK. Yes, sir. We are going to expend a significant amount of that money in our patent classification area. As you know, we are not fully automated. Twelve of our 16 examining groups still use paper, and the paper files are used by the public still, to the greatest extent, in our public search room.

As technology grows and develops, it becomes necessary to constantly go through and reclassify—reorder—this tremendous file of 5.5 million U.S. patents, to ensure that if you are seeking a particular technology that you will be able to find it efficiently and effectively, and that it's been properly indexed for retrieval. We are going to upgrade our efforts in the classification of the file to ensure that our classification remains current for the user community.

We're also going to enhance our file integrity program. This is where we go through the paper files, both in the public search room and in the examiner's paper files throughout the patent examining areas, to ensure that missing patents are replaced, so that all patent copies are available, both for examiners and the public, while we're awaiting the full automation.

Mr. HUGHES. When you say missing, do you mean that they've been taken out by an examiner and are not in the file, or they are in use?

Mr. KIRK. We have done studies in the past that show that on average, at any point in time in our paper files, seven percent of the documents are either missing, in the sense that they have gone away and will never come back; or they are on an examiner's desk—he has pulled them out of the file to review the application; or they have been misfiled.

When you are looking for them, they are not where they should be, and you will miss them. Therefore, the file integrity program goes through and ensures that all the patent documents are in place.

Mr. HUGHES. The examiner is supposed to insert some indication in the file that an examiner has that record?

Mr. KIRK. No, he does not. We have tried this program in the past on a trial basis, and found it simply did not work.

Mr. HUGHES. And why is that?

Mr. KIRK. I'd have to review the file of that study to give you an answer. I can only tell you that I know that the pilot program that we ran on that was unsuccessful.

Mr. HUGHES. What is the allocation in this increase of $2.2 million and $217,000 to improve applications? What's the allocation as between patent examination and trademark examination improvement?

Mr. KIRK. All of that is in the patent examination area.

Mr. HUGHES. All in the patent examination area?

Mr. KIRK. Yes.

Mr. HUGHES. OK. There are no further questions, so we thank you very much for your testimony.

We apologize for the delay in getting started this morning, but we, too, had a caucus which was called at the last minute, which we did not contemplate when we scheduled this. I apologize for the delay.

That concludes the hearing for today, and the subcommittee stands adjourned.

[Whereupon, at 10:25 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

LETTER FROM RICHARD M. BERMAN, PRESIDENT, INTERNATIONAL TRADEMARK ASSOCIATION, TO HON. WILLIAM J. HUGHES, CHAIRMAN, SUBCOMMITTEE ON INTELLECTUAL PROPERTY AND JUDICIAL ADMINISTRATION, JULY 20, 1993

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July 20, 1993

The Honorable William Hughes
Chairman
House Judiciary Subcommittee on Intellectual Property and Judicial Administration
207 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Hughes:

The International Trademark Association (INTA) has been advised that the House Judiciary Subcommittee on Intellectual Property and Judicial Administration will be considering HR 2632, Fiscal Year 1994 USPTO authorization legislation, within the very near future. We have been assured by the U.S. Patent and Trademark Office (USPTO) that, aside from an explicit reference to an increase in the registration application filing fee from $210 to $245 per class, the legislation will contain no new or amended language involving Trademark Office activities and operations.

The proposed user-fee increase was initially brought to the Association's attention in mid-1992. In November of that year, INTA approved a resolution supporting Fiscal Year 1994 authorization legislation increasing trademark user-fees to an amount that would hold fees at amounts that would yield revenues at no more than a 10% increase over the then current fiscal year's revenue level. The resolution resulted from an agreement forged from a series of discussions between INTA and USPTO representatives that the Agency should attempt to maintain trademark operations and activities at or about present levels. That understanding also recognized that any user-fee increases were to be used exclusively for supporting USPTO trademark operations and activities at the then current (November 1992) service levels.

The Association's approval of the fee increase was also predicated on the USPTO's adoption of measures to increase efficiency and productivity measures; consideration and implementation of other appropriate cost cutting proposals; and a continued liaison with and involvement of the user-fee paying community. Consequently, insofar as HR 2632 serves as legislative acknowledgement of the understanding reached by the Association and the USPTO, INTA does not oppose the bill's passage.

Nonetheless, INTA is examining a number of more long term issues bearing on the capacity of the Trademark Office to serve both trademark owners and the general public. As always, once these issues are fully addressed, we will share our findings and recommendations with you, Mr. Moorhead and the other members of the subcommittee, as well as with appropriate USPTO officials.

Imperative for any informed meaningful review of the USPTO trademark function are periodic updates and analyses of certain basic data concerning productivity and finances. These reports are also critical to informed dialogue between INTA and the Agency. Although the data has been available in the past, no updated reports have been prepared in recent months. While this lapse may be due to the change in administrations, both Commissioner-designate Lehman and Acting Commissioner Kirk (who also serves as Assistant Commissioner for External Affairs) have committed to providing the trademark community with such reports. The continued frequent communication with Trademark Office administrators also is evidence that this useful information will again be provided on a regular basis.

In fulfilling its statutory objectives, the USPTO has assumed a crucial role in both national and international commerce. INTA has a long and distinguished record of assistance to the Agency in fulfilling that mission. Consequently, we welcome the opportunity to be a continuing resource to you and your subcommittee in this effort.

Very truly yours,

Richard M. Berman
President

cc: Jarilyn Dupont, Counsel
House Judiciary Committee Subcommittee on Intellectual Property and Judicial Administration
Thomas Mooney, Counsel
House Judiciary Committee Subcommittee on Intellectual Property and Judicial Administration
Members of the House Judiciary Committee on Intellectual Property and Judicial Administration
Bruce Lehman, Commissioner-designate, USPTO
Michael Kirk, Acting Commissioner, USPTO
Robert Anderson, Acting Assistant Commissioner for Trademarks, USPTO
Robin Rolfe, Executive Director, INTA
Douglas Barden, Associate Executive Director, INTA
Jerome Gilson, Counsel, INTA
Andrew Goldstein, Chair, INTA U.S. Legislation Committee
James Johnson, Chair, INTA USPTO Committee

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