PATENT AND TRADEMARK OFFICE AUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE

OF THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4972

PATENT AND TRADEMARK OFFICE AUTHORIZATION

JULY 27, 1988

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PATENT AND TRADEMARK OFFICE AUTHORIZATION

WEDNESDAY, JULY 27, 1988

U S HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE,
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 Robert W Kastenmeier (chairman of the subcommittee) presiding

Present Representatives Kastenmeier, Cardin, Moorhead, DeWine, and Coble

Staff present David W Beier, counsel, Thomas E Mooney, associate counsel, and Veronica L Eligan, clerk

Mr KASTENMEIER The subcommittee will come to order

Without objection, the committee will permit the meeting today to be covered in whole or in part by videos and still photography pursuant to Rule 5 of the Committee Rules

Today, the subcommittee is conducting a one-day hearing on authorization of the Patent and Trademark Office The statutory authority for the Patent and Trademark Office will expire at the end of September of this year Unless we act to authorize the PTO, it will no longer be able, technically, to operate

The Appropriations Committee has indicated they will not process an appropriation measure for the PTO until there is in fact an authorization My colleagues will remember, the existing authorization passed at the end of the last Congress after over a year and a half of strenuous work

The existing authorization contains limitations on the use of appropriated funds, restrictions on the PTO automation program and other management directions It would be my expectation that this year's legislation will mirror the existing law, unless the administration can bear the heavy burden of showing that PTO's management has improved or that the Congress' policy judgments were in fact wrong

It is my hope that through this hearing the various important issues surrounding PTO will be reviewed Clearly, the well-documented record of management problems with PTO automation program deserves our continued scrutiny Of equal importance is a question of whether appropriated funds or user fees be used to pay for automation services that are to be made available to the public

Finally, I expect to explore during this hearing the tragic situation confronted by the biotechnology industry whose patent applications are languishing in the PTO apparently because of a lack of foresight and planning

[The statements of Mr Kastenmeier and Mr Moorhead follow]

OPENING STATEMENT

THE HONORABLE ROBERT W KASTENMEIER

PATENT AND TRADEMARK OFFICE AUTHORIZATION

JULY 27, 1988

Today the Subcommittee is conducting a one day hearing on authorization of the Patent and Trademark Office The statutory authority for the Patent and Trademark Office will expire at the end of September of this year Unless we act to authorize the PTO it will no longer be able to operate The Appropriations Committee has indicated that they will not process an appropriation measure for the PTO until there is an authorization

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fees should be used to pay for the automation services that are to be made available to the public Finally, I expect to explore during this hearing the tragic situation confronted by the biotechnology industry whose patent applications are languishing in the PTO because of a lack of management foresight and planning

Our witnesses for today's hearing are Congressman Ron Wyden of the 3rd Congressional District of Oregon, Donald J Quigg, Commissioner, Patent & Trademark Office; Donald Banner, president of the Intellectual Property Owners, Inc , and Joseph De Grandi, a patent expert on behalf of the American Intellectual Property Law Association and Mr Gerald E Yung, on behalf of the Information Industry Association

Opening Statement of

Carlos J. Moorhead

On H.R. 4972

July 27, 1988

Mr Chairman

I too would like to welcome our witness for this morning. In 1980 this subcommittee found that our Patent and Trademark Office was in a real mess There was a waiting period for patents to issue of 26 months with the likelihood of extending that to 36 months. It was not unusual to find 25% of any search file missing Twenty five million documents were filed in the same manner devised in 1790 and there was no plan whatsoever for automation This committee was so upset with what we found we voted to separate the Patent and Trademark Office from the Department of Commerce That didn't happen, but what did happen is a full scale effort to modernize that office and bring it into the 20th Century. And in the last eight years we have made tremendous progress in making our Patent Office one of the best in the world

Mr Chairman, you can take a lot of credit for this turnaround I bring this up because it's easy to forget how much progress has been made By next year, the waiting period will have been reduced to 18 months, instead of extending it to 36 months The quality of a patent has been improved A new court

for the Federal Circuit was created to hear patent cases, the number of hearings examiners has doubled, a new system of fees have been put in place and an extensive automation and modernization program is underway

This turn around was accomplished through the efforts of many people, a number of whom are in this room today. A lot of hard work remains to be done but I believe we are close to achieving our goal of making our patent system, a model for the world to follow.

[The text of H R 4972 follows]

100TH CONGRESS
2D SESSION

H. R. 4972

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes

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IN THE HOUSE OF REPRESENTATIVES

JUNE 30, 1988

Mr KASTENMEIER (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, and for other purposes

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

SECTION 1 AUTHORIZATION OF APPROPRIATIONS

(a) There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $117,504,000 for fiscal year 1989, $125,210,000 for fiscal year 1990, and $111,984,000 for fiscal year 1991, and

(2) such additional amounts as may be necessary for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law

(b) Except as otherwise specifically provided in this Act and section 42(c) of title 35, United States Code, the Patent and Trademark Office is authorized to use fee revenues to support any of its operations or activities

SEC 2 APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U S C 1051 and following) may remain available until expended

SEC 3 OVERSIGHT OF AND ADJUSTMENTS TO TRADEMARK AND PATENT FEES

(a) TRADEMARK FEES —The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 31 of the Trademark Act of 1946 (15 U S C 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner may increase fees for services or materials only once during this 3-year fee cycle The Commission, however, may establish new fees or increase existing

fees when there is a measurable change in examination procedures, services, or materials

(b) PATENT FEES —The Commissioner of Patents and Trademarks may not, during fiscal years 1989, 1990, and 1991, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner may increase fees for services or materials only once during this three-year fee cycle The Commissioner, however, may establish new fees or increase existing fees when there is a measurable change in examination procedures, services, or materials

(c) PATENT FEES —Section 41(f) of title 35, United States Code, is amended by inserting the phrase "in the aggregate" after the word "reflect"

SEC 4 PUBLIC ACCESS TO PATENT AND TRADEMARK OFFICE INFORMATION

(a) Section 4 of Public Law 99-607 is repealed

(b) The Commissioner of Patents and Trademarks will maintain, for use by the public, paper or microform collections of United States patents, foreign patent documents and United States trademark registrations arranged to permit search for and retrieval of information The Commissioner

may not impose fees for use of such collections The resources for maintaining the collections will come from appropriated funds

(c) The Commissioner of Patents and Trademarks may establish fees for access by the public to automated search systems of the Patent and Trademark Office in accordance with section 41 of title 35, United States Code, and section 31 of the Trademark Act of 1946 (15 U S C 1113) If fees are established, a limited amount of free access shall be made available to all users of the systems

SEC 5 OVERSIGHT OF AND LIMITATIONS ON TRADEMARK AND CERTAIN PATENT FEES

Subsections 5(a)(2), (b), (c) and (d) of Public Law 99–607 are repealed

O

Mr KASTENMEIER Our witnesses for today's hearing are Congressman Ron Wyden of the third congressional district of Oregon, Donald J Quigg, Commissioner of the Patent and Trademark Office, Donald Banner, President of the Intellectual Property Owners, Inc , Joseph A De Grandi, a patent expert on behalf of the American Intellectual Property Law Association and Mr Gerald E Yung on behalf of the Information Industry Association

Our first witness today I am very pleased to say is Congressman Ronald L Wyden of Oregon Congressman Wyden is Chairman of a Subcommittee of the Committee on Small Business, recently held hearings on the problems faced by small business communities as a result of the backlog for biotechnology based patent applications

I share many of Congressman Wyden's concerns in this area and I look forward to further debate on the issue by hearing his testimony this morning As I recently wrote to Secretary Verity, "Unless the administrative resolve to confront 24 issues is more clearly demonstrated, the biotechnology industry faces a major roadblock to future business success"

No matter how many patent law amendments we pass to assist biotechnology industry and certainly this committee has authorized several, they will be of no avail unless they can receive timely and quality response to their patent applications So it is a pleasure for me to grant our distinguished colleague, Ron Wyden Ron?

TESTIMONY OF HON RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr WYDEN Thank you very much, Mr Chairman I want to thank you for the great leadership that you have shown in this area, Chairman Kastenmeier, and let me just state right at the outset the fact of the matter is that my subcommittee would not have been able to undertake the inquiry that we did without the help of your subcommittee and your counsel, Mr Beier

You have all been invaluable to us in undertaking our inquiry and I just want you to know how much I appreciate the chance to work with you and the fact of the matter is that we could not have even put together our initiative, in my view, without the good help of yourself and Mr Beier

I wanted to say good morning to my good friend from the Energy and Commerce Committee, Mr Moorhead, who is also one of my favorites in terms of plotting and scheming to figure out ways to solve problems I wanted to thank him

Mr MOORHEAD I don't know whether to thank you or not for that

Mr WYDEN Nobody is more enjoyable to work with to try to come up with solutions Our colleagues will see this morning that we have got an awful lot of work to do in this area The fact of the matter is that it has now taken years for some of our most promising young companies, firms on the technological cutting edge to get the patent protection they need to compete in world markets

It is my view that this is a clear and present danger to new and struggling companies and it really reflects what I think is the disorganization of a bureaucratic backwater There is a huge number of delays due to problems relating to the nuts and bolts processing

of applications The questions that have been raised concerning the quality of issue patents, in my view is threatening this whole industry

Now, the numbers, Mr Chairman and colleagues are staggering Renee Tegtmeyer, a Deputy Commissioner of the Patent Office, reports that some 11,500 biotech cases are pending final action It will take 5 to 6 years simply to plow through the applications Meanwhile the number of new cases is growing at a rate of 12 percent per year

It is my feeling, Mr Chairman, on the basis of our enquiry that the agency is almost on the verge of a bureaucratic nervous breakdown, and that what in effect they are doing is using quill-pen solutions to deal with 20th century demands What I thought I would do very briefly is try to highlight some of the findings that we have made

We found it took an average of 27 months to open a biotechnology application file and reach a first action, and another 25 months on the average to finally award or deny a patent This 52-month period compares none too favorably with the 19 4-month pendency average overall that office expects to achieve for all pending applications this year

Now, my staff went down and viewed some of the patent processing procedures, beginning with the mail room What we found were hundreds of applications with checks attached, some of them weeks old, stacked up in dozens of overflowing supermarket style carts In other parts of the in-take area we found undistributed applications that had been sent to the office months earlier

What we found that was particularly unsettling was that personnel data for the biotech examining groups indicates that the Patent Office is losing the valuable biotech examiners more quickly than they can be recruited and trained I think one of the most disturbing things that we found, Mr Chairman, reflected the comments of Linda Miller, who was a financial analyst with a recognized firm, Payne Webber

Ms Miller noted that this black hole of patent applications was cited as the single most discouraging factor in biotechnology investment, after concerns about competition, in 93 percent of the four dozen corporate prospectuses that she reviewed Ms Miller went on to add that the problem was forcing many of our biotechnology companies overseas for investor capital at the price of giving up some of their intellectual property, the real fruit of their labor, to foreign competitors

Another one of our witnesses, Mr Chairman, Mr Harold Wegner, was a former Patent Office examiner and now is a well-recognized Washington patent attorney He testified that much of the work done by the Patent Office was "junk," and referred to the biotechnology patenting process, I quote, as the "Monty Hall, Let's Make a Deal school of patent prosecution "

Mr Wegner complained the amendments to claims encouraged by the office through massive continuations forced multiple refilings of old documents He went on to say that the inefficiencies are compounded by this problem and the quality of issuing patents declines

Mr Chairman, I could go on, but I think you get the general sense of my comments I strongly support the views that you laid out in your June 21 letter to Secretary of Commerce, Verity Those reflect my views, as well, and I sent a similar letter to the Secretary of Commerce in April I think we have got to have a fast track application process

I think we should look to special pay rates for biotechnology examiners, better personal recruitment procedures, employee training enhancements and reassignment of commerce to biotech areas The last point I would mention, Mr Chairman, is that it was my feeling that the patent office really is not even aware of the magnitude of the problems that they have there

For example, at our hearing, Commissioner Quigg talked about the value of the special process, the make special process, for what he felt was going to get companies quick consideration Well, the fact of the matter is that it is not being used

It is not being used because we were told it is cumbersome, not very workable, and a lot of people who might use it don't even know about it And I think that that process to make special and a variety of the other things you laid out in your letter are things that need to be undertaken immediately I just don't like the idea of letting so much of our economic future sit around in mail rooms and shopping carts and the like waiting for consideration

I thank you for the chance to come and I will be happy to answer any questions you might have or our friend from California

[The statement of Mr Wyden follows]

Wyden

HEARING STATEMENT
PATENT OFFICE REAUTHORIZATION HEARING

BIOTECH BACKLOGS AT THE U S PATENT AND TRADEMARK OFFICE

BEFORE THE SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES,
AND THE ADMINISTRATION OF JUSTICE
JULY 27, 1988
REP RON WYDEN

Mr Chairman, I want to thank you for inviting me to testify at these important reauthorization hearings And I want to commend you and your committee for addressing a crucial problem now facing our biotechnology industry, namely a huge and growing backlog of patent applications at the U S Patent and Trademark Office

Quite simply, this backlog means that it takes years for some of our most promising young companies, firms on the technological cutting edge, to get the patent protection they need to compete in world markets

This is a clear and present danger to these new, struggling companies And it reflects the disorganization of a bureaucratic backwater

Mr Chairman, I know that you have helped develop very supportive legislation for this critically important new industry I refer specifically to your fine work on the Drug Price Competition/Patent term Restoration Act, and more recently your efforts in the current congress to combat offshore piracy of U S patent rights

But I know you agree that the kinds of delays we've seen in the nuts-and-bolts processing of applications, and the questions that have been raised concerning the quality of issued patents, threaten these valuable initiatives

The numbers are truly staggering Rene Tegtmeyer, a deputy commissioner of the Patent Office, reports that some 11,500 biotech cases are pending final action it will take five to six years just to plow through those applications. Meanwhile, the number of new cases is growing at a rate of 12 percent per year

What we have, here, Mr Chairman, is an agency on the verge of a bureaucratic nervous breakdown And I am afraid that the remedies presented by Patent Office management are little more than quill-pen solutions to deal with 20th Century demands.

On March 29, the Small Business Subcommittee on Regulation and Business Opportunities, which I chair, held an extensive hearing on this issue I know my time is short, today, but I'd like to share with you some of the issues raised in that hearing, and the preceeding investigation of the problem by my subcommittee staff

-- My staff found that it took an average of 27 months just to open a biotech application file and reach a first action, and another 25 months, on the average, to finally award or deny a patent This 52-month period compares none-too-favorably with the 19 4-month pendency average, overall, the office expects to achieve for all patent applications this year

-- Subcommittee staff spent several days viewing patent processing procedures, beginning with the mail room We found hundreds of applications with checks attached, some of them weeks old, stacked up in dozens of overflowing supermarket-style carts In other parts of the in-take area we found undistributed applications that had been sent to the office months earlier

-- Perhaps most disquieting, our analysis of personnel data for the biotech examining groups indicates that the Patent Office is losing its very valuable biotech examiners more quickly than they can be recruited and trained

-- Linda Miller, a financial analyst with Paine Webber, noted that this black hole of application backlogs was cited as the most discouraging factor in biotech investment, after concerns about competition, in 93 percent of the four dozen corporate prospectuses she has reviewed

-- Ms Miller added that this problem is forcing many biotech companies overseas for investor capital, at the price of giving up some of their intellectual property -- the real fruit of their labor -- to foreign competitors

-- Harold Wegner, a noted Washington patent attorney and a former Patent Office examiner, testified that much of the work done by the agency was "junk," and referred to the biotech patenting process as the "Monte Hall, Let's Make A Deal" school of patent prosecution Mr Wegner complained that amendments to claims encouraged by the office through massive continuations force multiple refilings of old documents Inefficiencies are compounded and the quality of issued patents declines

Page Three

Mr Chairman, I would go on, but I sense that you get my drift I wish I had confidence in the Patent Office to solve its problems on its own I don't It needs some direction I strongly support the solutions outlined in your June 21 letter to Secretary of Commerce Verity regarding fast-track applications processing, special pay rates for biotech examiners, better personnel recruitment procedures, employee training ennancements and reassignment of examiners to biotech areas

These suggestions follow closely my own in a letter to Mr Verity following our March subcommittee hearing, and they echo in spirit the colloquy I had on the floor of the House with our colleague, Mr Smith of Iowa, chairman of the Appropriations Subcommittee on Commerce

Mr. Chairman, thank you again for the time and opportunity to address this subject

Mr KASTENMEIER We thank you very much, Congressman Wyden, for your consideration and for your interest in this Your attention to what is obviously a significant problem, and of course, we look forward to continuing to work with you on this It is a little difficult to understand why the Patent Office would be unaware of the industry-wide concern, criticism in this area of biotechnology and application processing

Can you indicate why the Patent Office felt it was not aware of this?

Mr WYDEN I can't really explain it, Mr Chairman, either they didn't know and that is a problem, or they did know and they didn't come up to Congress and say work with us and let's try to change it But I, as I said, found particularly distressing, you know, their comments with respect to this fast-track process that now exists

I mean there is a process to get fast considerations, called a petition to make special Mr Quigg felt it was working and people in the industry felt it wasn't I just think that reflects a basic misunderstanding of what is going on out there in this key sector of our economy

I am very pleased that you are getting their attention and leading us towards a new authorization that can maybe change some of these practices

Mr KASTENMEIER Well, certainly it has world-wide implications This isn't just a matter of internal competition here It has world-wide implications for the industry, competitively, abroad and here Obviously, you have certainly fixed an extraordinarily pressing problem, although it is fair to say that the office has announced within the last week a new process, a new practice which has just been published which will inquire more with respect to its likelihood of meeting whole or in part the problem we are talking about here

I would like to yield to my colleague, the gentleman from California

Mr MOORHEAD Principally, I hear comments related to the biotechnology end of the Patent Office, rather than all of the other work that they are doing

Mr WYDEN Mr Moorhead, I think that is right We look specifically at the biotechnology area and the biotechnology area is far behind the other ones, so, yes, that is it

Mr MOORHEAD About 10 percent of the work of the Patent Office, is that right?

Mr WYDEN Yes I am not sure of the specific percentage involved That sounds fairly close

Mr MOORHEAD I understand one of the biggest problems they have is they haven't been able to get enough of the examiners in that particular area that they need to really do a job on this highly technical type of work, and they are in the process of making those hirings, but it has been slow getting the people that were truly qualified

Mr WYDEN I think that is right But I just would say that I think there has been an awful lot of foot-dragging associated with that I think that if we hadn't started this effort in the Congress, we would even be further behind the effort, and they do need to

figure out a process for getting trained people, and then keeping them But what we got from our hearing was that there were morale problems there, management problems there and all of those factors were hampering the effort to get good people and keep them

Mr MOORHEAD We put restrictions on the use of certain user fees they had during the last Congress, and, of course, that money is not available to them as it might have been otherwise to improve their automation system and to do other things that would improve the quality of their work

I think that you have pointed out some good things for us to be concerned with My only concern would be that we do probably have the best Patent Office in the world, and that we try to work on the problems that are there, rather than saying well toss the whole thing out with the bath water, and not appreciate the good things because of the few things that are in bad need of repair And that is all that I am trying to point out

I think you pointed out an area that really needs a lot of work, but I still think that we have to be very grateful for the areas where they are making improvements They have improved—a couple years ago when we looked at this back in 1980, our committee looked at this thing, and there was a long, long waiting period at that time

It was 26 months for any patent and it was going up to 36 As a result of our Chairman's efforts and the efforts of the people in the Patent Office, that has been cut down dramatically and it will probably be about 18 months within a short period of time

That is a great improvement I think maybe your pointing this other problem out will bring about the same kind of improvements that were brought about because to a great extent, the efforts of this committee We may have to find that they have a little better use of the money that comes in from their fees, in order to complete the job

I want to commend you for your efforts, and I just want us to keep a good eye on a good quality product that we have for the most part, rather than just thinking these problems are the whole thing

Mr WYDEN Well, I think it unquestionably is a special problem in this area Your point about the fees—I don't think we should rule anything out We asked questions at our hearing about the question of fees, and I think we should examine all possible ways to generate the funds that are needed to clear up this backlog

One of the things that I will be interested in as a result of your hearing is just where the backlog stands today in biotechnology It is my understanding that we are still having very, very serious problems with respect to the backlog in biotechnology, and my sense is, given the importance of this area, maybe we do want to look at some special initiatives in this area

For example, this question of the petition to make special, which Chairman Kastenmeier proposed in his letter to Secretary Verity, I think that is something that we could do that would be a low ticket kind of item, if we can work together to clean up that petition to make special, so that things that are promising could get on the fast track

That would help and would not be a big budget item So just as we do on the Commerce Committee, I am anxious to work with you I know that a week after our hearing the President, on his Saturday radio address, talked about the promise of biotechnology I think that had the President known about some of these problems we could have even gotten him involved in that effort at this point

I am anxious to work with the gentleman and there is certainly a lot to do

Mr MOORHEAD Thank you

Mr KASTENMEIER I just have one question, Mr Wyden You have indicated that your staff had determined that it averaged 27 months just to open the biotech application file and another 25 months on the average to award or deny a patent You indicate this 52-month period compares with a 19 4-month pendency average overall for other patents

My question is, and I should probably say that the Patent Office figures would differ, on that point, but they would concede that there is a differential, significant differential Ron, is it your position that the differential should be entirely eliminated, or just brought back into some sort of equitable relationship, that may not exactly equate on time with all, overall with all other patents, and that is, to put it another way, is there a characteristic of biotechnology application which might just have a somewhat longer application period, in your view?

Mr WYDEN Well, the first thing that I would say is that I just think we have got to cut through that backlog just as fast as we possibly can, simply because this sector is so promising, whether it is health care, whether it is agriculture You can take sector after sector of our economy and a big part of our future rests here

I think it is horrid to see why there is a major differential between other patent applications and biotechnology ones If the Patent Office can make a case that it is inevitable, I think we all in the Congress have to listen to it, but I think it is hard to see, given the importance of this sector, why we should tolerate the major differential that is out there now

Mr KASTENMEIER We thank you very much for your very good work with both your committees, but particularly the one you chair, because that is—that has been—you have given focus to this problem and it has been certainly of great help to us and ultimately I think it will contribute to solving this problem

Congress does have a major role with respect to it, and we commend you Thank you very much

Mr WYDEN Look forward to working with you, Mr Chairman, and our colleague from California

Mr KASTENMEIER Our second witness is Commissioner Donald J Quigg Mr Quigg is the Assistant Secretary of Commerce and as such, is the United States primary spokesman on the international scene and intellectual property matters relating to patent and trademark laws

Mr Commissioner, it is always a pleasure to welcome you before the subcommittee You have been a frequent witness and have been of great help to the committee in the past and we are delighted to greet you Of course, we have your statement in its entirety

which we will receive and make part of the record without objection

Perhaps before you proceed, I could again yield to my colleague——

Mr MOORHEAD I am going to put my opening statement in the record and I have already made most of the comments that I wanted to make

Mr KASTENMEIER Without objection, the gentleman from California's opening statement will appear in the record immediately following my own

TESTIMONY OF DONALD J QUIGG, ASSISTANT SECRETARY AND COMMISSIONER, PATENT AND TRADEMARK OFFICE, U S DEPARTMENT OF COMMERCE

Mr QUIGG Thank you, Mr Chairman Mr Moorhead, Mr Coble, I appreciate the opportunity to discuss our plans for the next authorization cycle In my statement I outline our progress and our authorization proposal

In the patent area we will reduce the overall pendency period to 18 9 months by the end of next year However, in the field of biotechnology, backlogs have continued to increase despite recent additions to our staff Over 1 year ago, we determined that a more drastic plan of action, including creation of a new examining group, was necessary Under this plan, we expect that this new group will reach an average pendency of 18 months by fiscal year 1992 However, relief is available for those who need a patent quickly

In 1982 we committed ourselves to disposing of trademark applications finally in 13 months by 1985 We met this goal in 1985 and are maintaining this pendency period

In 1982, the office completed and began to implement our plan to automate the office This is probably the most publicized and criticized program of the U S Patent and Trademark Office The Department of Commerce recently convened an industry review panel to evaluate our progress on the automated patent system They concluded that this system offered benefits It was needed and it should be developed

However, they also noted significant problems and recommended changes in several areas We have started to implement those recommendations On the positive side, we have developed an in-house system for searching the full text of U S patents that is widely used by examiners and is making a substantial contribution to patent quality

On the trademark side, all searching by our examining attorneys is done using our automated systems It has improved the quality of examining and service to the public

During the next authorization cycle, user fees will become increasingly an important source of funding However, important questions remain and are addressed in the proposed authorizing legislation forwarded by Secretary Verity I would like to highlight several provisions

Subsection 1(a) would authorize appropriations for the next three fiscal years These levels take into consideration the 50 percent

subsidy for small entities During this cycle, the Office plans to use appropriated funds to provide this subsidy At some point, however, we estimate that 80 to 85 percent of the Office program will be supported by user fees and the subsidized amount will approach or exceed appropriations When this occurs, support for this subsidy will either have to come from fee revenues or the backlog may begin to grow

In determining these levels, the PTO attempts to make the most accurate estimates possible of fee income Fee income exceeded initial estimates in the last authorization period, however This excess fee income would be used to offset trademark fee increases for at least the next year or for such other purposes as the Congress and administration may determine

Section 4 is the administration proposal for funding public access to our automated search files in our search rooms To make our data bases available will cost a significant amount of money Three alternatives became apparent to us First, appropriated funds could be requested Second, patent and trademark application fees could be increased and used to subsidize those who use the search systems or, third, those who use the data base could pay for its use through user fees

After considering public comments, we devised a system that we believe meets the needs of the users while fairly allocating the costs of delivering the information to the public Under this proposal, we would maintain a paper or microfilm collection of U S patents, foreign patent documents and U S trademark registrations, and make those records available to the public

The costs of maintaining and using these records would be paid for from appropriated funds We propose establishing user fees for accessing the automated search systems At the time of system start-up, the public would be provided with a reasonable amount of free access to our automated records and training on the use of the system

The fees would be consistent with the guidance of OMB Circular A-130 and set at marginal costs, specifically to the additional costs incurred by the PTO to make the system available

In contrast to our last authorization cycle, a system can now be provided to the public Therefore, the need to resolve this issue is more urgent We realize that there is little time remaining in the 100th Congress and look forward to working with the subcommittee on these issues Thank you, Mr Chairman

[The statement of Mr Quigg follows]

4-11-99

Statement of

DONALD J QUIGG
ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS

Before the

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES AND
THE ADMINISTRATION OF JUSTICE
COMMITTEE ON THE JUDICIARY
U S HOUSE OF REPRESENTATIVES

July 27, 1988

Mr Chairman and Members of the Subcommittee

Thank you for the opportunity to appear and to discuss our plans for the next authorization cycle for the U S Patent and Trademark Office First, I would like to outline our goals, the progress we have made in the last six years, and our expectations for the next three years Then, I would like to describe our authorization proposal Inasmuch as the Subcommittee has recently considered most of the legislative issues, I will not dwell on them today

In 1982, the Administration gained your support for revitalizing the Patent and Trademark Office To do this, we implemented a three-point plan, that, with some modifications, forms the basis for the programs we want to pursue in fiscal years 1989, 1990, and 1991 These points are

1 To reduce the average time it takes to get a patent to 18 months by 1989 and to maintain this pendency period, and to continue to improve the quality of issued patents,

2 To maintain the average time it takes to register a trademark at 13 months and to give the first opinion on registrability in 3 months, and

3 To take aggressive steps toward automation of the Office

In 1985, we added a fourth major goal that is to strengthen the worldwide protection of intellectual property

The successes that we have had up to this time have been made possible, in large part, by the stable funding base provided by our present user fee system This system was created by Public Law 97-247 with the support of this Subcommittee and was modified and clarified by our last authorization bill, Public Law 99-607

Initially, some feared these user fees would discourage small entities from using the patent system and would remove incentives

to hold down operating costs These fears were unwarranted The number of patent applications from small entities has risen dramatically In trademarks, only the application fee has been increased and its increase was delayed by one year Furthermore, we do not plan to increase trademark fees for at least one year

During the next authorization cycle, user fees will become an increasingly important source of funding for our Office However, important questions remain concerning the appropriate use of fee income and are addressed in our authorization proposal

Patents

In the early 1980s, we were receiving approximately 107,000 utility patent applications per year, more applications than we could examine in one year At that time, it took approximately 25 months to obtain a patent If nothing was done, we estimated that, by 1987, the pendency period would be 36 months To remedy this situation, we embarked on a massive hiring program for examiners and support staff Originally, we planned to reduce the pendency period to 18 months by 1987 However, this goal became unrealistic and we adjusted our timetable to reach an 18-month pendency period by the end of 1989

In fiscal year 1988, we expect to receive a total of 134,000 utility, plant, and reissue patent applications, a record number Furthermore, we expect to receive even more, 137,000, in FY 1989 Given these increased filing levels, we estimate that the pendency period would now be between 42 and 44 months if we had not initiated our massive hiring program

However, we believe that we will meet our goal and reduce the pendency period to 18 9 months next year We project that we will receive 140,000 and 144,000 applications in fiscal years 1990 and 1991, respectively If our projections are accurate and we receive the level of funding recommended in the President's Budget, we expect to maintain this pendency period in 1990 and 1991

To be able to reach these pendency levels, we have hired over 1,100 examiners since 1982 At the end of this year, we will have 1,394 examiners To reach and maintain our pendency goal, we need to hire 225 examiners each year, for the next three years

Although our efforts have proved successful in the continued reduction of average pendency time for utility patents, applications in the field of biotechnology have not fared as well As a matter of fact, application backlogs in the biotechnology area continued to increase, despite additions to examiner and supporting staff Because the reasons for this increase are many, I

will highlight only the most important ones First, patent applications in that field are filed at a rate that has been increasing substantially faster than that in other areas of technology Given the relatively small pool of examiners fully experienced in biotechnology, our capacity to absorb and train new examiners in this area was limited Considering the narrow and specialized nature of the technology, examiners require a long learning curve before they are fully productive and our capability to shift examiners from other areas is limited

Until recently, biotechnology applications had been divided among three examining groups This made it difficult to recognize the sudden increase in this area However, about three years ago when we first realized that a backlog problem existed in the biotechnology area, we attempted correction through the hiring of new examiners for this field This was not enough, however After reassessing the situation about a year ago, we determined that a more drastic plan of action, including the creation of a new examining group, was necessary With some recent modifications to this plan, we expect that this new group will reach an average pendency time of 18 months by fiscal year 1992, if we can assume that the applications in this area will continue to increase at a rate of 12-15% initially and then stabilize at a rate of 9-10% in the next few years Our current budget and planned budget requests already accommodate this level of increased filings Also, our plan addresses not only the backlog problem, but also the need to maintain a high quality examination

However, while we are fighting the backlog problem, relief is available all along for companies who need a patent quickly, particularly those that are thinly capitalized and may depend on patent ownership to attract additional investment capital Although applications are generally examined in order of their receipt, we have a longstanding procedure to ensure that this examination process does not work to the detriment of applicants who are in need of speedily obtaining patent protection Examination can be obtained out of turn in circumstances such as the advanced age of the inventor, ongoing infringement of the invention, reliance on the patent for investment decisions or the nature of the subject matter In addition, every application that has not yet received an examination is eligible for an accelerated examining procedure if requested and if certain, relatively uncomplicated, procedural requirements are met Accordingly, no application is necessarily condemned to have to await its regular turn for examination, nor do patent applicants have to bide their time until we win the battle of the backlog

Furthermore, we are planning to ease the requirements for supporting a request for accelerated examination of applications filed by small entities in the biotechnology area A notice announcing this new practice was published on July 19, 1988, in our Official Gazette

Despite our overall backlog, and specifically that in biotechnology, all the steps to redress this problem have been taken with an eye toward maintaining, or even enhancing patent quality In newly emerging technology areas, such as biotechnology, robotics, and superconductors, special programs have been implemented to prepare examiners to handle the rapidly growing number of patent applications The program includes focused training, search file enhancement, and other steps, such as improved access to on-line data bases on biotechnology In addition, we recognized that the complexity of biotechnology demanded more examination time per application to ensure a quality product As a consequence, examiners in this field have been allotted more time to work on these applications

To enhance quality and productivity in all areas of technology and in all phases of the patent examination process, we have established a Quality Reinforcement Program in cooperation with the American Intellectual Property Law Association First, we identified ten broad areas of our practice where concerns or complaints had been expressed Using a series of surveys of practitioners, Office employees, and patent applications, we pinpointed aspects of procedures in the PTO and those used by applicants that were not understood or being followed, aspects that were not efficient, and areas where additional education is necessary A number of areas that we singled out for improvement related to communication Greater specificity and clarity in the examiner's actions and more specific responses by applicants should lead to better quality patents and application file histories, and more efficient prosecution for the Office and the applicants

Trademarks

As with patents, the situation in trademarks in the early 1980s was not rosy The pendency period was the highest in the history of the Office In 1982, we committed to give first opinions on the registrability of trademarks in three months and to dispose of them finally in 13 months by 1985 We met this goal in 1985, and are maintaining these pendency periods

In 1981, we received 55,152 applications for trademark registration and registered 31,306 marks on the Principal Register In contrast, we expect to receive 74,000 applications in 1988 and to register 47,800 marks We estimate that we will receive 77,200 applications in 1989, and 80,400 and 83,800 in 1990 and 1991, respectively If our estimates are accurate, we expect to maintain our current pendency levels (These estimates do not include additional workload that may result from enactment of "intent to use" legislation that has been recommended by the United States Trademark Association)

Automation

In 1981, examiners performed their jobs in basically the same manner as did their counterparts in the early 19th century. The first Office action on the patentability of inventions was handwritten. All of the examiner's search files, patents and copies of technical publications, were paper copies. Not only did this lack of modern tools limit the efficiency of the examiners, but it limited the quality of the work performed by the examiners.

In response to a requirement in Public Law 96-517, the Office prepared a study on automating all of its operations to increase efficency and quality. In 1982, the Office committed itself to implementing the automation plan that resulted from the study. This implementation of our automation plan is probably the most publicized and criticized program of the U.S. Patent and Trademark Office. Some of the criticism has been justified; some has not. Some mistakes have been made, but we have tried to learn from them and correct them.

Most recently, the Department of Commerce convened an Industry Review Panel to evaluate our progress on the Automated Patent System (APS), one aspect of our automation program. They concluded that APS was needed and that it offers "the potential for real benefits to the PTO and its development should be continued." Manual search files and techniques, they conclude, are "increasingly cumbersome and unreliable." While they note that the PTO made some significant progress toward an automated search system, they also identified significant problems and recommended changes in the areas of APS design, determining requirements and testing, and program management. We have started to implement some of the recommendations in the management area, and are planning to implement the remaining recommendations.

Unfortunately, the criticisms in this area have preempted recognition of the many improvements made at the Patent and Trademark Office since 1981 in the area of automation. For example, an in-house system for searching the full-text of U.S. patents issued since 1975, has been developed and provided to patent examiners at over 80 terminals throughout the Office. All of the nearly 1,400 patent examiners have been trained to use this automated data base and other data bases that are commercially available. This full-text system is widely used by examiners and is making a substantial contribution to the quality of patents that we issue. Test use of this system by members of the public generated enthusiastic and positive reactions. The public clearly desires to access this system.

On the trademark side, all searching by our examining attorneys is now being done using our automated systems. In addition to

increasing file integrity, the automated trademark search system provides the capability to search all data fields, thus, the examiners are able to perform more comprehensive searches more quickly than can be done in the paper files. Overall, the automated trademark systems have made more and better information available and, thereby, improved the quality of trademark examining and service to the public.

We have come a long way since 1981. However, as can be expected with a complex automation project, many problems must be resolved before the full benefits of automation can be realized.

A summary of our efforts to strengthen intellectual property protection around the world and additional information about our activities is included in our Annual Report for Fiscal Year 1987. This report has been forwarded to the Members and staff of this Subcommittee. If it would be useful to the Subcommittee, we would be pleased to have it included in the record.

Authorization for Fiscal Years 1989, 1990, and 1991

A proposal to authorize appropriations for the Patent and Trademark Office for fiscal years 1989, 1990, and 1991, was forwarded to the Congress by Secretary Verity, and introduced by request as H.R. 4972 by Chairman Kastenmeier and Mr. Moorhead. This proposal, in general, follows along the lines of the last authorization bill, Public Law 99-607.

Subsection 1(a) would authorize the level of appropriations requested by the President for fiscal year 1989 and projected for fiscal years 1990 and 1991. Our program level for fiscal 1989 is $285,149,000 and 3,715 positions. This is $5,000,000 lower than the request presented in March due to projected savings in our patent automation program, but this program still represents an increase of $13,529,000 over our program in fiscal year 1988.

With offsetting fee collections estimated at $167,645,000, our appropriation request, or requested budget authority, is $117,504,000, or approximately 41 percent of our total program. In estimating 1989 fee collections, we assume that trademark fees would not be adjusted during the next fiscal year. These fee estimates are also based on the assumption that patent fees would be increased on October 1, 1988, by 8.9 percent, the increase in the Consumer Price Index (CPI) during fiscal years 1986 through 1988 that we projected at the time the President's Budget was submitted. However, we have delayed the adjustment of the patent and service fees until later in fiscal year 1989.

Our estimates also include the 50 percent subsidy for small entities who are defined as individual inventors, small businesses, and nonprofit organizations. This subsidy was introduced in our first authorization bill, Public Law 97-247,

and was codified in the last authorization bill, Public Law 99-607 The purpose of this subsidy was to ensure that patent fees did not deter small entities from filing patent applications This subsidy appears to have accomplished its purpose The number of U S applicants claiming small entity status has increased 40 percent from 1983 to 1987, while the overall increase in filing utility applications was only 30 percent for the same period During this authorization cycle, the Office plans to use appropriated funds to provide this subsidy At some point during the next decade, however, we estimate that 80 to 85 percent of the Office program will be supported by user fees and the subsidized amount will approach or exceed appropriations When this occurs, the support for this subsidy will either have to come from fee revenues available to the Office or the backlog may begin to grow

Given current planning assumptions, we estimate that our program levels will be $296,914,000 and $294,721,000 for fiscal years 1990 and 1991, respectively With estimated offsetting collections of $171,704,000 and $182,737,000, we estimate that our respective appropriation requests will be $125,210,000 and $111,984,000 This assumes that patent fees will be adjusted, while trademark fees will not These projected levels do not include any increases in workload that could occur if "intent-to-use" legislation is enacted Of course, as with other trademark-related activities, 100 percent of the increased workload due to such legislation would be funded through user fees Therefore, while program levels could increase, the level of authorized appropriations would not

Subsection 1(a)(1) would authorize appropriations at these levels Subsection 1(a)(2) also authorizes to be appropriated such additional amounts as may be necessary in each fiscal year for increases such as salary, pay, retirement, and other employee benefits that are authorized by law

Subsection 1(b) restates authority granted in subsection 5(a)(2) of Public Law 99-607 This new subsection would provide that, except as otherwise specifically provided in subsection 42 of title 35 of the United States Code or the provisions of this proposal, the Office may use appropriated or apportioned fee revenues for any of its operations or activities This language is intended to permit the Office to recover through user fees the costs of any of its operations or activities with two exceptions (1) the maintaining of paper and microform patent and trademark collections for use by the public will be supported by appropriated funds and (2) trademark fees will be used exclusively for trademark-related purposes

Section 2 permits the Patent and Trademark Office (PTO) to expend fee revenues, received in one fiscal year, in another fiscal year This authority is identical to that granted in section 2

of the prior authorization and is similar to that granted in Public Law 97-247 This section is not intended to encourage or justify accumulating and carrying over large amounts of excess fees It should be recognized, however, that planning for and maintaining a relatively small surplus is prudent

Although the PTO attempts to make the most accurate estimates possible of fee income that will be produced by a given level of user fees, income often differs from our estimates As fee levels may only be adjusted every three years, the levels selected should, in theory with any level of inflation, produce a fee income reserve in the first year, produce no change in the reserve in the second year and require the use of the reserve to meet costs in the third year However, fee income has exceeded initial estimates in each year of the past three-year authorization period The Department of Commerce recognizes that the additional fee income results from the increase in workload and seeks to apply the additional income to the extent possible to meet the expanded workload as intended by Public Law 97-247 If there is excess fee income at the end of a three-year cycle, it will be used to offset fee increases or for such other purposes as the Congress and the Administration may determine For example, carryover funds from the last authorization cycle will be used at least during the first year of the cycle to eliminate the need for an increase in trademark fees

Section 3 provides guidance on what fees may be adjusted during the coming fee cycle, when they may be adjusted, and by how much they may be adjusted As in the prior authorization legislation, subsections 3(a) and (b) limit the adjustment of trademark fees and patent service fees that are set by the Commissioner These fees may be increased only to the extent that the new fees in the aggregate do not exceed fluctuations in the Consumer Price Index In limiting fee increases to fluctuations in the CPI, let me emphasize that every fee change must be clearly justified

Unlike Public Law 99-607, this proposal specifically states that these fees may only be increased once during the three-year cycle Also, the Commissioner would be precluded from establishing additional fees for processing, materials, or services However, the Commissioner would not be precluded from charging a new fee for a new service or material or from charging a different fee where a measurable change in a service or material, such as in promptness or quality, is offered. This revised language concerning establishment of new fees clarifies, in our opinion, the intent of the predecessor of this provision in Public Law 99-607 as reflected in Senate Report 99-305

Unlike trademark fees and patent service fees, limitations on adjusting the statutorily established patent fees are permanent and are found in section 41(f) of title 35, not in the authorization legislation Subsection 3(c) would amend subsection 41(f) to

allow patent processing and maintenance fees established in subsections 41(a) and (b) to be adjusted "in the aggregate " Subsection 3(c) will do for patent application and maintenance fees what subsections 3(a) and (b) do for trademark fees and patent service fees

The phrase "in the aggregate," as used in these subsections, applies to the total amount of revenue Its inclusion offers the PTO the flexibility to change some patent and trademark fees more or less than others so long as the total increase in the amount of fee revenues that are collected does not exceed the CPI limitations for trademark and patent fees When adjusting fees, the PTO will recognize the public's concerns that application fees be kept low so as to encourage use of the patent and trademark systems

The Office will consider several factors when adjusting fees including (1) the potential effects of specific fees on applicants and other users of the patent and trademark systems, and (2) the actual unit costs for each service or activity or any increases in unit costs which may come from planned program improvements for better service and quality In addition, we intend to seek public comments on proposed fee changes

Section 4 merits your special consideration It contains our proposal for funding public access to our automated search files This issue arose during the consideration of the last authorization bill when a requirement to fund the public search rooms and libraries out of appropriated funds was included in that authorization This did not, however, resolve the issue In fact, it had the effect of preserving the status quo on the availability of information in our search rooms and libraries

The simple fact is that to make the PTO's search systems available to the public will cost a significant amount of money As more data are available electronically, the cost of providing them will increase Three alternatives became apparent to us (1) appropriated funds could be requested, (2) patent and trademark application fees could be increased and used to subsidize those who use the data bases, or (3) those who use the data bases could pay for access through user fees

On August 20, 1987, the PTO published a notice in the Federal Register seeking comments on these alternatives for funding the public's use of the automated search systems Twelve of the 21 respondents generally were in favor of the use of appropriated funds Seven of the respondents recognized the reality of operating under severe budget deficits and, thus, the need for some user fees

After considering these comments, we devised a system that, we believe, meets the needs of users while fairly allocating the

costs of delivering the information to the public Under this proposal, the Commissioner would maintain a paper or microform collection of U S patents, foreign patent documents, and U S trademark registrations and make these records available to the public The costs of maintaining these records would be paid from appropriated funds No fees for using these records would be assessed

User fees for accessing the automated search systems would be established However, to meet the concerns of the public as reflected in comments to our Federal Register notice, our proposal would provide members of the public with a reasonable amount of free access to our automated records Adequate free training on the use of the systems, a certain amount of free access time for all users at system start-up, and personal assistance in the use of the systems for infrequent users would be provided

Beyond this, however, this Administration believes in the principle of user charges for services that confer a benefit directly on the user Fees for access to the automated trademark and patent search systems in the public search rooms would be consistent with the guidelines of OMB Circular A-130, and set at marginal costs (i e , the additional costs incurred by the PTO to disseminate the information in the automated systems to the public)

Prior to offering access to an automated system to the public, the Commissioner will publish a notice of proposed rulemaking for public comment describing the plan for providing a reasonable amount of free access time to all users and its fee policy

To implement our plan, subsection 4(a) would repeal section 4 of Public Law 99-607 that prohibited the Commissioner from imposing a fee for the use of the patent and trademark search rooms or libraries Subsection 4(b), by mandating the maintenance of paper or microform patent and trademark collections supported with appropriated funds, assures the public of access to these collections until the Congress decides differently Subsection 4(c) permits the Commissioner to establish fees for public use of the PTO automated search systems but requires him to provide the public with a limited amount of free access

We believe this proposal provides a fair and responsible system for allocating the costs of providing our information to the public In contrast to our last authorization cycle, there is a real possibility that certain of our data bases could be provided to the public in our search rooms and libraries during this authorization cycle Therefore, the need to resolve this issue is more urgent

Section 5 of Public Law 99-607 limited the use of fee income to fund our automation projects and required our Office to report

key automation deployment decisions to the Congress and wait 90 calendar days before deployment In his Signing Statement, the President expressed concern that these provisions would jeopardize the future of the automation project and that they came close to crossing the fine line between oversight and interference However, he chose to consider these provisions as a reflection of its genuine desire to understand the automation program and to exercise legitimate oversight In this spirit, the PTO has attempted to keep the Congress informed of each major step taken Furthermore, traditional oversight and authorization jurisdiction can accomplish the same goals of section 5 without its burdensome provisions We recommend, therefore, that the limitation on the use of fees in subsection 5(a)(1) not be renewed and that the reporting requirements in subsections 5(b), (c), and (d) be repealed Subsection 5(a)(2) should be repealed because it is restated as subsection 1(b) of the new Administration proposal

We realize that there is little time remaining in the 100th Congress and look forward to assisting this Subcommittee to enable it to complete consideration on authorizing our programs for the next three years

Abbreviated Statement of

June 29, 1988

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss our plans for the next authorization cycle. In my statement, I outline our progress, and our authorization proposal. I request that the full statement be included in the record.

In the patent area, we will reduce the overall pendency period to 18.9 months next year. However, applications in the field of biotechnology will not fare as well. Backlogs in this area continued to increase, despite recent additions to our staff. After reassessing the situation almost one year ago, we determined that a more drastic plan of action, including the creation of a new examining group, was necessary. Under this plan, we expect that this new group will reach an average pendency time of 18 months by fiscal year 1992.

I would note, however, that relief is available all along for companies who need a patent quickly and we plan to extend relief to small entities in the biotechnology area.

In 1982, we committed ourselves to disposing of trademark applications finally in 13 months by 1985. We met this goal in 1985, and are maintaining this pendency period.

In 1982, the Office completed and began to implement our plan to automate the Office. This is probably the most publicized and criticized program of the U.S. Patent and Trademark Office.

The Department of Commerce recently convened an Industry Review Panel to evaluate our progress on the Automated Patent System. They concluded that this system offered benefits, it was needed, and it should be developed. However, they also noted

significant problems and recommended changes in several areas. We have started to implement some of the recommendations in the management area, and are planning to test their recommendations.

On the positive side, we developed an in-house system for searching the full-text of U.S. patents that is widely used by examiners and is making a substantial contribution to patent quality. On the trademark side, all searching by our examining attorneys is now done using our automated systems that have improved the quality of examining and service to the public.

During the next authorization cycle, user fees will become an increasingly important source of funding. However, important questions remain and are addressed in proposed authorizing legislation forwarded by Secretary Verity. I would like to highlight several provisions.

Subsection 1(a) would authorize appropriations for the next three fiscal years. These levels take into consideration the 50 percent subsidy for small entities. During this cycle, the Office plans to use appropriated funds to provide this subsidy. At some point, however, we estimate that 80 to 85 percent of the Office program will be supported by user fees and the subsidized amount will approach or exceed appropriations. When this occurs, the support for this subsidy will either have to come from fee revenues or the backlog may begin to grow.

In determining these levels, the PTO attempts to make the most accurate estimates possible of fee income. However, fee income has exceeded initial estimates in the last authorization period. This excess fee income will be used to offset trademark fee increases for at least the next year or for such other purposes as the Congress and the Administration may determine.

Section 4 is the Administration proposal for funding public access to our automated search files in our search rooms. The simple fact is that to make our data bases available will cost a significant amount of money. Three alternatives became apparent to us:

(1) appropriated funds could be requested,
(2) patent and trademark application fees could be increased and used to subsidize those who use the search systems, or
(3) those who use the data bases could pay for access through user fees.

After considering public comments, we devised a system that, we believe, meets the needs of users while fairly allocating the costs of delivering the information to the public. Under this proposal, we would maintain a paper or microform collection of U.S. patents, foreign patent documents, and U.S. trademark registrations and make these records available to the public. The costs of maintaining and using these records would be paid from appropriated funds.

We propose establishing user fees for accessing the automated search systems. The public would be provided with a reasonable amount of free access to our automated records and training on the use of the systems. The fees would be consistent with the guidelines of OMB Circular A-130, and set at marginal costs, specifically, the additional costs incurred by the PTO to make the system available.

In contrast to our last authorization cycle, there is a real possibility that some systems could be provided to the public. Therefore, the need to resolve this issue is more urgent.

Mr KASTENMEIER Thank you, Mr Commissioner, for that brief report Now, of course, as you know, recently I did write to the Secretary of Commerce concerning the backlog in biotechnology patent applications How, in your view, did this problem come to exist in the first place?

Mr QUIGG Well, Mr Chairman, contrary to what Congressman Wyden has observed, or at least concluded, this was not something that just suddenly became a matter of importance to us We have been looking at this problem now for the last couple of years

We did add some additional examiners a couple of years ago, and more than a year ago, Assistant Commissioner Tegtmeyer, his Deputy and I met together to discuss the need for setting up a separate, new examining group We committed to that and we started the process of getting approvals, but unfortunately the Government doesn't work like private industry and it took us just about a year to get the approvals and get the space that was required and to be able to begin to put the thing together

That has been in operation now for about 3 months The time that it takes for the applications to get the first action in that new group was at the end of June, 15 5 months The overall average pendency of the group is 27 months

Mr KASTENMEIER Did you conclude that you needed more resources, fiscal resources from the Congress or additional authorizations to address this problem, or did you conclude that you could handle it internally?

Mr QUIGG We had assumed that we could handle it internally We had not asked for additional funds The Congress had been providing funds to us, and had not cut back on those It was not until we really ran into the problem of having to compete with industry that we decided we would have to see if we could get some provision that would permit us to get a salary differential for the people that worked in that office

Mr KASTENMEIER Have you been able to do that as of this date on salary

Mr QUIGG It has not yet been approved It took us a while to assemble all of the data, and I would like to thank Mr Beier for helping our people locate particular sources of information that we had to use in that application The request has gone forward and hopefully it be approved shortly

However, I would point out that if it is a matter of trying to compete with private industry, I think we are whistling in the dark There is no way that a private industry that badly needs a person in this area can't outbid the Patent and Trademark Office, as long as we stay within any sort of a adjustment that the Government is apt to give So I think this in itself is something that we have to recognize

Mr KASTENMEIER In other words, for examiners in this field, this specialty, there is a tendency for you to, as you train and recruit the new specialists, new examiners, you tend to also lose others at the same time, so that there is always a question of catch up for you as far as personnel

Mr QUIGG Yes, sir

Mr KASTENMEIER You indicate that it will be about 1992 before the backlog is either eliminated or substantially reduced

Mr QUIGG Yes, sir This is down about a year from the estimate that we testified to before Representative Wyden's subcommittee We have been receptive to any ideas that anybody has as to how we can improve the approach to this problem

We have been using our normal training procedures, that is, the senior people within the Group 180 are used to train the new people But we have also gone to the extraordinary measure of farming out new recruits into other examining groups for their basic training, which would take maybe a year to a year and a half, and then once they have that, we can move them into the new group, Group 180, and permit them to operate

We will be hiring 28 new examiners this year, this calendar year, and another 28 for next calendar year

Mr KASTENMEIER So obviously, and, of course, we are aware of that, too, one of the problems is indeed personnel

Mr QUIGG Yes, sir

Mr KASTENMEIER Attraction, retention, training, and clearly all that, whatever can be done there needs to be done Part of that, perhaps, is to make positions more attractive on either a temporary or other type of basis, a special rate, perhaps

I think we understand that you can't necessarily compete with industry in this heavily specialized, much sought-after as far as personnel is concerned You may not be able to compete as well as you would like

Mr QUIGG I would point out, Mr Chairman, that we are attempting to give these examiners the finest training that we can possibly get We have had meetings with the Industrial Biotechnology Association, and we are setting up as part of our patent academy, a Biotechnology Institute with the aid and cooperation of the Industrial Biotechnology Association

We are having top notch lecturers come in and lecture on this Last week we had a meeting with representatives of the Association and the various law groups and discussed the possibility of getting some sort of a standard for the display of these letters I am not a biotechnological person, but this mish-mash of letters that run across a page is very difficult to examine and to identify, and by standardizing the display, we think that that, too, will help in speeding up the process

Mr KASTENMEIER I must say I think the Congress would like you to do better That is, to say, we would like to encourage you to clean up the backlog before 1992 The reason I say that is, we are talking 4 years

Mr QUIGG Yes

Mr KASTENMEIER And it is embarrassing for all of us for Congressman Wyden to say this about the black hole of application backlogs that was cited as the most discouraging factor in biotechnology investment That is a dreadful thing to say, and then to have to say that it will be 4 years before we can get back to where we would like to be We want to encourage you to improve upon that forecast for us

I know that personnel is an important part of it Perhaps it isn't all of it As I indicate, in my letter to the Secretary of Commerce and as you, yourself, in your full statement indicate, that you are

announcing a new practice for accelerated examinations of applications filed by small entities in the biotechnology area

This notice appeared in the Official Gazette only last week I wonder if you can spell out what the implications are that this might have

Mr QUIGG Primarily, we were aiming at trying to help the small companies get fast action on their cases, if that invention is a major element of assets So in effect, it permits the small entity to request a special handling by stating that the subject of a patent application is a major asset, that they are a small entity, and that the development of the technology is significantly, or will be significantly, impaired if examination of the patent application is delayed

Now, in that connection, I heard the testimony of Mr Wyden about our petition to make special practice I testified before his subcommittee that I felt that this was a way in which applications could be moved forward, if they were of special importance He indicated that his information was that it was very difficult to use and was not being used

It so happened that a week later, I was at a banquet of a biotech group and happened to be sitting next to an attorney who decided to discuss this particular area He said, "You know, I hear a lot of criticism about getting cases through in the biotech area" But he said, "I don't have any problems" He said, "The moment I file my application, I file a petition to make special and by the time I am ready to market it, the patent application is allowed" So there is some lack of information somewhere

Mr KASTENMEIER Well, I noticed as far as the average pendency and so forth, there is a difference in Ron Wyden's, his staff evaluation, and the PTO Office evaluation as it appears in the IBA reports in terms of the differential We may be talking about two different types of figures here

It may well be that some people, surely some applicants, depending on their situation, will find the current pendency period or even the receipt and creation of the opening of a case file acceptable because of their own marketing situation But we have to look at it overall in terms of its impact on the whole industry, and on America's competitive situation

I have a number of other questions, but I want to yield to my colleagues I would like to yield to the gentleman from California, first

Mr MOORHEAD Thank you The Navy and the Army and the Air Force all require that graduates of their academies to put in 5 years service under contract after they complete the training course I understand that the Department of Justice has a similar training program and they require their young lawyers to spend at least 3 years

If we have a real serious problem here in getting trained people to come and to stay beyond a few months, have you considered adopting a similar program in exchange for that training? Perhaps they agree to stay for a longer period of time It is obvious, that if you worked in the Patent Office, you are more valuable to private industry than you would have been before This is the kind of re-

volving door that can revolve so fast that it hurts everybody Do you suppose you can go in that kind of a direction?

Mr QUIGG Well, let me say that we have a rather closely associated problem in connection with law training People come into the Office, and while they are in the Office, they decide to go to law school and the Patent and Trademark Office does pay tuition to the extent that the training is along the lines of our work

We require them to stay for a certain period of time because of that payment Well, that has appeared to be no particular problem to law firms They come along, and they will recruit the individual and then say, "All right, how much do you owe the Patent and Trademark Office for the moneys that they have put out We will repay the patent office for that sum and you just come on and work for us"

So it is very difficult once a person has technology to say you are captive now for X number of years

Mr MOORHEAD The military services don't seem to have any trouble with getting them to meet the commitment of their contract, which is for 5 years I suspect if your contract was worded differently, you might have an easier time I don't now for sure

Mr QUIGG We will take a look at it, sir

Mr MOORHEAD When we agreed to the 30 percent cap on user fees for automation, the Congress had two basic reasons for that One was the concern over the PTO involvement with the use of exchange agreements and the second was because much of the PTO expenditure for automation in the last couple of years involved capital expenditures

Is there still a lot of new equipment to be purchased and how much of a burden is the 30 percent cap

Mr QUIGG There still will be a great deal of equipment to be purchased before the entire development is completed During the remainder of this calendar year, we are going to spend most of our time using the equipment that we have presently and making certain that it runs stably

Once that is done, then we will begin looking at what modifications we might make, what improvements we might make from the standpoint of efficiency, cost and the like

Mr MOORHEAD Is this a process that will continue forever, or is it something where we can expect that the process would be completed as much as possible within 4 or 5 years, or what are we talking about?

Mr QUIGG Mr Moorhead, I think any time you look at an automation process or system, you are looking at a system which has an average life of something like 8 years Sometimes, you use that equipment longer, but when you do, you begin to run into some real problems of operation So I think we will have continuing replacements of capital assets in this system

Mr MOORHEAD Well, obviously, equipment does wear out You have to get up to a point where you're renewing your equipment all right, but you have brought it up to a point where it is, modern and effective

Mr QUIGG Yes, sir

Mr MOORHEAD That is what I am trying to reach How soon do you expect that you can be to a point where it is operating to the efficiency that you would like to see it operating at?

Mr QUIGG We are not going to get into the next deployment for almost another year, that is, going into another examining group And then it would take about 3 years from there to deploy the system throughout the balance of the Office

Now, I would point out that what I am talking about is simply going to the search and retrieval aspects of the Office Our total automation plan, as we have initially visualized it also included turning the Office into a paperless Office In fact, I think that industry would like to see us at a point were they could file their applications electronically and have them examined electronically and get them back out

But this is going to be another several years When we do this, there will be a considerable acquisition of additional equipment because it will be necessary to put a work station on each examiner's desk Now, when we initially planned the program, that was what we were going to do

As far as trying to save money in search and retrieval, we set up clusters where the examiners can presently go and search and go back to their Offices and do the preparation of their papers

Mr MOORHEAD We are constantly encouraging our inventors, the people involved in that area of producing a better mouse trap, doing a better job One of the areas that many of us have been concerned with was the effort a couple of years ago to try to charge a fee for use of the search system I know you say that you are going to be relying greatly upon fees that are charged for much of the work that has to be done

If there was no cap on the use of the fees collected, would there still be a need to charge-a-fee for the use of automated search fees?

Mr QUIGG Well, it is going to be necessary to have a policy decision, as to whether or not the automation of the search room will be funded through taxpayer funds or whether it will be funded through the use of fees Whether those fees are charged as a result of raising the fling fee or a specific user fee or some other fee, I think that is beside the point The real question that needs to be decided is whether or not the search room is going to be funded by taxpayer money or fees

We presently do not have the funds where we can automate that search room, without cutting back other portions of our program So we are in a dilemma This year we are at a place where we have a very successful portion of our automation that could be deployed through the search room and let the public use it, but without funding we are not in a position to do that

Mr MOORHEAD If we remove the cap on the fees collected, could you do that job without an additional fee for search

Mr QUIGG Yes It would simply be a matter of raising the filing fee or something of that sort It would be another fee that would have to be extended so as to cover that additional cost We have been able to operate within that 30 percent figure for this year

As the maintenance fee income increases, the ratio of taxpayer support to fee support is going to decrease and we will be pinched rather drastically

Mr MOORHEAD The USTA in their statement alleged that the PTO with regard to exchange agreements continues to make its records unavailable to all but its exchange partners Would you comment on that statement?

Mr QUIGG The tapes are available to any one who wishes to purchase them We do have some litigation going on with respect to a question that has to do with the particular form in which the information is wanted, and I am not in a position to comment on that because of the fact that it is in litigation

Mr MOORHEAD I wanted to ask a couple questions and I know my time is about up, but Mr Wyden, in focusing on the biotech area, talked about the serious problems there What percent of your patent applications fit into that particular category?

Mr QUIGG It is about 5 percent, sir

Mr MOORHEAD Is it true that you have just stacks of these things in baskets floating around the place?

Mr QUIGG Well, sir, since hearing this information from Representative Wyden at the hearing, I went back and I asked the people who had charge of the mail room what or where are these files Mr Wyden referred to They went down and have not been able to find them, and——

Mr MOORHEAD That is even worse yet

Mr QUIGG We can only speculate as to what his staff saw We were not able to find a group of cases sitting around in grocery baskets as was alleged We have been paying a lot of attention and we have spent a lot of time and are still spending a lot of time on renovating that pre-examination system, the mail room and getting this to the examiners, both trademarks and patents

We have now installed a second shift to work in the mail room, in order to get the materials moved forward more quickly

Mr MOORHEAD As you know, the members of this subcommittee are very interested in making our patent system work, because we believe in it We believe we should encourage more inventions and in our intellectual property areas lies a lot of the future for our economy

Mr QUIGG I would like to say, sir, that we specifically appreciate the support that Mr Chairman, and the balance of the subcommittee has given us It has been a bipartisan support, and we think that that has been very helpful

Mr MOORHEAD Thank you

Mr KASTENMEIER From Maryland, Mr Cardin

Mr CARDIN Mr Quigg, it is my understanding that next month you will be meeting with your counterparts from Japan in regards to intellectual property areas I am still hearing complaints from businesses very concerned about the patent process, mainly small business about the patent process in Japan which tends to discriminate against American companies, particularly the long time between filing and action, the fact that Japan uses the first to file rather than the first to invent

The concerns about the cost of contesting a matter in Japan for a small company and the multiple filings with minor differences used by large Japanese companies, I am wondering whether you can comment as to whether this matter will be on the agenda next

month, and what the prospects are for some meaningful discussions with Japan in this area

Mr QUIGG Mr Cardin, first of all, that group will be led by Mr Mike Kirk, who is Assistant Commissioner for External Affairs It will be a multiple department representation Mr Kirk has already been having meetings with the Government people and with private industry people to identify the specific problems that they are having And once we have identified those and we have gotten the suggested solutions that people think are possible in areas in which we would want to go for settlement, yes, those will be discussed with the Japanese

Now, I would point out that we have been working with the Japanese to try to change or get them to change their law so that many of these differences that cause our industry problems would be improved We have been having excellent relationships with the individuals, who prior to a few days ago, held the title of Director General, but now the titled is changedto Commisioner

They have been extremely cooperative, and they are sensitive to the pressure which the United States is putting on not only the patent system, but their trade representatives We would expect to continue this type of approach I will be talking with the Commissioner of the Japanese Patent Office in the next couple of days I think that we will simply point out to him the areas of difficulty which our industry has been having and tell him that these are areas that have to be solved

Mr CARDIN Do you each—has there been any movement to date since these discussions have started?

Mr QUIGG Not on this specific factor, other than the fact that I know that they are paying attention They had a lot of people in attendance at the hearing that Senator Rockefeller had They got the information back to the new Commissioner of the Japanese Patent Office, and it is my understanding that this is one of the reasons why he is making the trip to the United States at this time

He is concerned

Mr CARDIN I am glad to hear that I hope if you would, your Office would keep us informed as to what progress is made in that regard

Mr QUIGG We would be glad to do it

Mr CARDIN Thank you Thank you, Mr Chairman

Mr KASTENMEIER The gentleman from North Carolina, Mr Coble

Mr COBLE Thank you, Mr Chairman

Commissioner, what percent of the patents issued go to foreign nationals?

Mr QUIGG In 1987 it was approximately 47 percent

Mr COBLE Has that number of percentage dramatically increased during recent years?

Mr QUIGG It has been a steady increase over a period of about 20 years

Mr COBLE And is this 47 percent a high mark, is that the highest?

Mr QUIGG Yes, it is

Mr COBLE You may not know the answer to this, but do you know why?

Mr QUIGG Well, I guess it depends on who you ask I think that there are a number of reasons for it Personally, I identify as one of the reasons the various takeover attempts that have been leveled This does nothing, but siphon money out of the coffers of various companies, and the result is that less money is spent on research and development

Another element is that more companies are shifting from manufacturing to service related activities I think that General Motors is a good example I believe that their profits for last year were something in the neighborhood of about $5 billion And of that, it was, I believe, $180 to $200 million that came from the automobile side of it

I guess to some extent we are looking at an age where youngsters, as they grow up, don't have the ability to—well, let's say, take a Model-T Ford apart and put it back together again You try to take one of the modern automobiles apart and you probably would never find a place for all of the parts again We are embarked on an education program We are pursuing a system where teachers will teach the youngsters to think analytically from kindergarten through high school on a day-to-day basis

This is a long-term thing that will show results in another 15 years It is not going to be immediate

Mr COBLE Commissioner, of course you hear a lot of rumors on this hill, but I have heard from time to time that there is maybe a healthy surplus over in your shop How about the patent account and trademark account, are they healthy surpluses available there?

Mr QUIGG Well, it depends on how you define healthy surplus The fees, when they were initially established, were established so that the first year of the triennium we would collect a surplus The second year we would collect just about what we needed to pay the operating cost of the Office and the third year we would be at a loss situation using the surplus from the first year

Now, this is all fine You can do your planning 3 years ahead of time, but it just so happens that the filings keep going up, up and up As you increase your filings, you increase the amount of fees that are collected, so, yes, we have had some surpluses of fees and have used those to offset budget items to the extent that they can be done in the next triennium

There has been some criticism by the U S Trademark Association, that we have excessive fees in the trademark side That surplus is at the present time about $7 million We have made a decision that no increase in trademark fees will be asked for in this next year If the surplus is sufficient to carry us on through another year or the third year of the triennium, then we would not increase the fees there However, it is something we have to keep an eye on, and as the need arises, we will come back and say, OK, we think we need to raise the fees for this much

Now, in this connection of fees, I think you have to look back to a time prior to 1980 At one time we had the fees set at a place where they were covering about 50 some percent of the cost of the operation in the Office They stayed that way for many years I

think it was from 1967 to 1980 It stayed in the same place With the result of the inflation that was taking place, the fees were covering less than 25 percent of the cost of the Office and the Patent and Trademark Office was not getting the financial support needed, and it became a national disgrace

It was on that basis that the Congress decided to let us increase the fees We took a commitment that we would reduce the pendency of the applications in the Office, and we have done exactly that We have hired in the last 7 years, about 1,300 new examiners We have trained them, and we have used those examiners to get to the point where we told Congress were going to be

So I think in view of the fact that we are talking about a triennium, a surplus—I would call it more an emergency budget, that is necessary, in order to take care of anything unexpected that takes place, if the filings should fall off, if certain other applications shouldn't be filed

Then the fee recovery would be reduced One of the things that happened in trademarks, not only have the applications increased, but the other papers that have been filed have just gone out of sight Everybody is filing them and the surpluses, primarily resulted from this increase of other papers

Mr COBLE One final question, Commissioner I may put you in a position of giving me a self-serving answer, but how do you compare the quality of our Patent and Trademark Office, Commissioner, with foreign Offices

Favorably, I hope, but I would be glad to hear from you

Mr QUIGG We have done a lot of work with the Japanese Patent Office and the European Patent Office Based on the searching, the examination, I would say that we are at least equal to and probably better than any of them

Mr COBLE And are the fees comparable?

Mr QUIGG No, sir The United States, to the best of my knowledge, is the only commercial country in which the patent Office is not self-sufficient

Mr COBLE Thank you, Commissioner Thank you, Mr Chairman

Mr KASTENMEIER The gentleman from Ohio, Mr DeWine

Mr DEWINE I have no questions

Mr KASTENMEIER I want to be sure about a question Mr Moorhead asked about something brought up by Mr Wyden, that is the in-take question You said you had not seen anything in your own examination recently of the intake of mail Quoting Mr Wyden's statement, he said subcommittee staffs spent several days reviewing patent process procedures beginning with mail room

We found hundreds of applications with checks attached Some of them weeks old stacked up in dozens of overflowing supermarket style carts In other parts of the intake area, we found undistributed applications that had been sent to the Office months earlier

I think the question really is what about the process generally of intake to the point of case option or case opening a case file Now, obviously that takes some time You have a backlog and apparently there is no point found to open a case file immediately, but it would appear from his description that notwithstanding that, that the mail or the intake is not followed up on forthwith, and is al-

lowed to sort of languish before it goes through some sort of preliminary intake or reception or assignment or whatever

I wonder if you could comment about that

Mr QUIGG Yes, Mr Chairman That period of time in which the applications are in the present processing stage, that is, before they reach the examiner, is very critical to us as far as our 18 by 89 program is concerned Every day means days that we don't get to utilize in reducing that pendency

Now, the thing that perhaps in the initial stages of the Office, the envelopes are opened, the files are inspected to see whether or not all of the materials necessary to get a filing date are there A bar code number is attached to the file so that it can be followed through our system That is done in a two-day period

Then it goes to the financial side, who handles the recording of the financing That is done in a day or less The time that we are now taking to get the application from the initial mail room receipt to the examining group is five days Now, we are working to reduce that because as I say, every day is important to us, as far as that goal is concerned

Mr KASTENMEIER That would seem not to agree with the observation that in other parts of the intake area we found undistributed applications that had been sent to the Office months before

Mr QUIGG Mr Tegtmeyer just reminded me that the total time to get to the examiner stage is 30 days, but it is the handling of the papers itself that is five days

Mr KASTENMEIER I just have two or three other questions I have a number of questions, but I think we will ask you to respond, if you will, by letter for inclusion in the record

Currently, do you plan on increasing fees, either trademark or patent fees, in the next three fiscal years, 1989, 1990, and 1991?

Mr QUIGG We expect to increase the patent fees in this triennium, yes As far as the trademarks, we have no intention of increasing that for the next year We will look and see what our cushion is at the end of this next year and make that determination

Mr KASTENMEIER You have a precise notion of the quantum of increase that you contemplate for the fees at this point?

Mr QUIGG I am assuming that it will be close to the inflation factor

Mr KASTENMEIER Another area——

Mr QUIGG Excuse me, sir It will be less than 12 percent

Mr KASTENMEIER Less than 12 percent

Mr QUIGG Yes, sir

Mr KASTENMEIER If Congress passed a separate bill, as a separate bill, the process patent provisions of the trade bill, would you recommend to the President to sign that section?

Mr QUIGG First of all, Mr Chairman, I appreciate the work which you and Mr Moorhead have both done in trying to improve the language of the bill that the Senate had passed There are some provisions in what is presently pending in the trade bill that we find rather objectionable, from a standpoint of having to make disclosure, notice provisions, things of this sort

For some reason, this has taken a turn which is different than almost any other law of enforcement of patents that we have ever faced, and I am not—I really don't know why that is necessary

Until we have seen the particular bill that would be proposed, I would hesitate to make a commitment as to how we would go

I would point out that we wouldn't be the only agency that will have to be making a recommendation

Mr KASTENMEIER I realize that, but obviously both as the Assistant Secretary of Commerce and as Commissioner of Patents, your views would be given very high credit by us

In the GATT discussions on intellectual property law the Japanese suggested the inclusion of design protection Do you know whether the administration is in agreement with that suggestion?

Mr QUIGG Yes The administration has not taken a position on the need for that We have spent a lot of time trying to get some specific justification from industry That has been far from persuasive up to the present time Because of that, we have gone ahead and have been pursuing reducing the backlog of our present design cases

There are some great deficiencies in our present design law, which probably should be overcome, if we could

Mr KASTENMEIER Of course, the committee is aware of the fact that you have lost your deputy commissioner, and presumably the administration will be looking for a replacement What qualifications, in your view, should the new deputy commissioner of the patent trademark have?

You won't make the selection alone, but nonetheless——

Mr QUIGG That is my problem, sir Let me put it this way If I had my preference, I would prefer to have him or her have the qualifications my previous deputy had and which I brought to the Deputy's position That is a person trained in law and in science, admitted to the patent bar, and a thing that I find very highly desirable is the fact that the person would have a considerable amount of experience in running a corporate intellectual property law group

If I had my preference, that is the package that I would try to get

Mr KASTENMEIER Thank you I have no further questions My colleagues do not and we wish to thank you very much for your appearance this morning and your help in discussing some of the concerns that we and others have We look forward to working with you to achieve some of these goals mutually

Thank you Our last panel will be Donald W Banner, President, Intellectual Property Owners, Inc , Joseph A De Grandi, President, Beverage De Grandi and Weilacher on behalf of the American Intellectual Property Law Association, Michael W Blommer, Executive Director, American Intellectual Property Law Association, and Gerald E Yung, Vice President for Government Relations Mead Data Central, on behalf of the Information Industry Association

Mr KASTENMEIER Gentlemen, we have received copies of your written statements Without objection, they will be made part of the record You are free to proceed as you see fit

Mr Banner, you have been here many times before this committee We may call on you first

TESTIMONY OF DONALD W BANNER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC, JOSEPH A DeGRANDI, PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, SENIOR PARTNER, BEVERAGE, DeGRANDI & WEILACHER, ACCOMPANIED BY MICHAEL W BLOMMER, EXECUTIVE DIRECTOR, AIPLA, AND GERALD E YUNG, VICE PRESIDENT FOR GOVERNMENT RELATIONS, MEAD DATA CENTRAL, ON BEHALF OF THE INFORMATION INDUSTRY ASSOCIATION

Mr BANNER Thank you, sir

I am pleased to be here in behalf of IPO today Thank you for this opportunity A written statement indicates that Mr Shilar is the person meeting with you here, but unfortunately he couldn't be here

I shall try to fill in for him In addition to our written statement we prepared a letter which is dated July 25, which we would be pleased if we can have that attached to our written statement

Mr KASTENMEIER Without objection, your letter of July 25 which I have in my hand, a three-page letter, will be also accepted and made part of the record

Mr BANNER Thank you, Mr Chairman

I think I can be very brief in view of the rather lengthy discussions we have had here this morning

We have presented our testimony 3 years ago, and emphasized as one of our main points there why the quality of patent examining was so important, in addition to the pendency issue which we have talked about

The quality is the fundamental character, in particular, which affects what this very important right is, for the 17 years of its life It affects the commerce of the whole country for 17 years and its value, its significance, is very great and the job has to be done properly as well as rapidly We feel that quality is so significant and we keep talking about it

The issue of an examining Office is, as I have said on other occasions, best looked at as involving three factors It is like a three-legged stool How does one examine the patent application properly? One has to have a thorough library of the prior art

That is what this is about, of a library of the prior art, which is reliable One must have experts sufficiently trained so that they can understand what the prior art is and what the application is That is the second issue we have been talking about The new examining people

The third thing is they have to have enough time to do it Those three factors are all equally essential Quality can't be, we can't over-stress the need for it The people in my industry groups have put that much higher on their priority list than the issue of how long something takes to get through the Patent Office

It is facetious, I know, but the fact of the matter is you can reduce the backlog to zero All you have to do is allow all the patents and that is the worst thing in the world that can happen

We don't want that We want it to be done properly There is no point in doing it at all if it isn't done properly It requires today that we keep our paper files appropriately

We don't have an automated system yet and it may be a very long time We have to have those paper files kept in the proper way

Backlogs are, however, obviously important There are backlogs in the area of the patent, the Board at the Patent Board of Appeals is getting very high Approximately a year-and-a-half backlog

If you have an application pending, you might get involved with an extra delay of that type That is significant In the design area, the backlog in the design area is about 3 years now

And for, as we all know, designs are oftentimes ephemeral and by the time you get the design patent issued, there might be no point in having it I think that is in the best interest of the country

The Gramm-Rudman-Hollings Act is something that we certainly appreciate your subcommittee looking into We feel it is unfair as it applies to the Patent and Trademark Office

Government-wide spending reductions result in effect in confiscation of user fees, something of the order of $5 million in 1986 We went along with the increases in those fees because we understood the service was going to get better, and they haven't

Just removed from the budget of the Offices, and that we feel is fair Going to the supplemental letter I mentioned to you, Mr Chairman, very briefly, we feel that the present provisions in the Administration's proposed bill 4972, are inconsistent with existing authorization laws We feel that those limitations and oversight provisions in the existing law should be maintained On the issue of access to patent and trademark files that is incorporated in the Administration bill, we feel that like the paper files that the Government maintains, the electronic version of that should also be made available freely to the people of the United States

It is a very significant point I think the Commissioner made It is a policy issue Why are we spending at one time we are talking about $680 million, why are we spending all that money to automate if this is not going to be available freely to the people of the United States? The object, it seems to me, of the patent system is to promote the progress of the useful arts

That is what it says in the Constitution What we have there is the greatest technological library in the world Don't we want that available to industry in America? Don't we want that available to the research people?

Don't we want to encourage their communication with that file so they know what happened before and so that we can get it back out there at the cutting edge of technology?

I think that is what we want to do We think going to a different aspect now, the consumer price index limitation on the size of the fees is very important It should certainly continue in our view and we think it is very important for the Patent Intake Office to report to Congress on key decisions in the automation program There have been a lot of problems with that as we all know We think it is terribly valuable to keep those limitations here The same with the exchange agreements we have been talking about earlier this morning

Our statement has some appendices that are attached to it that the subcommittee may find of some interest

That concludes my statement, and I thank you for the opportunity I will be happy to answer any questions you may have

[The letter follows]

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Falls Church, VA

July 25, 1988

The Honorable Robert W Kastenmeier
Chairman
Judiciary Subcommittee on Courts, Civil
Liberties & the Administration of Justice
U S House of Representatives
Washington, DC 20515

Dear Mr Chairman

This letter supplements our written statement for the Patent and Trademark Office authorization hearing

You have introduced the Administration's new bill, H R 4972, by request Our comments on portions of H R 4972 that are inconsistent with the existing authorization law, Public Law 99-607, are set forth below We strongly favor continuing the limitations and oversight provisions of the existing law

Subsection 1(b)

Subsection 1(b) of H R 4972 states that the Office is authorized to use fee revenues to support any of its operations or activities, except as provided otherwise in the subsection The history of fee legislation, however, shows Congress intended for a number of the Office's operations to be supported by appropriated funds Such operations include, among others, the Office of the Commissioner, activities relating to public information, legislation and international affairs, and the public search rooms Subsection 1(b) should be clarified

A section-by-section analysis accompanying the bill says the Office envisions that at some point "the support for the reduced fees for independent inventors, small businesses and non-profit organizations will come from fee revenues available to the Office " It is our view that this support should come from appropriated funds

Subsections 3(a) and 3(b)

H R 4972 continues the prohibition against any increase in fees greater than the increase in the consumer price index during the previous three years Subsections 3(a) and 3(b), however, would allow the Commissioner to "establish new fees or increase existing fees when there

is a measurable change in examination procedures, services, or materials " This language, according to the section-by-section analysis, permits increases, for example, to pay for changes "in promptness or quality" of services

The House Judiciary Committee's report on the bill that became existing law states the Commissioner may not establish new fees except "fees for new types of processing, materials, or services " H Rep No 99-104, at 10 Authority to increase fees to improve promptness or quality of services would emasculate the consumer price index limitation We support continuing the existing law

Subsection 3(c)

Subsection 3(c) would allow patent processing and maintenance fees to be adjusted "in the aggregate" This would allow the Office to change the relative levels of patent application fees, patent issue fees, and patent maintenance fees decided upon by Congress in 1982

These patent processing and maintenance fees are the only Patent and Trademark Office fees for which Congress specified actual dollar amounts in the 1982 fee law We are not aware of any reason why Congress should relinquish its authority to control the relative levels of these fees

Section 4

We oppose section 4 of H R 4972, which in effect would repeal section 4 of Public Law 99-607 For the reasons explained in our statement, the law should continue to prohibit charging fees for using the public patent or trademark search rooms

The distinction H R 4972 makes between paper and microform records, on the one hand, and automated search system records, on the other, should not be adopted Charges for public access to government records should not depend on whether the records are in paper or electronic form Moreover, H R 4972's proposal to allow "a limited amount of free access" would entail cumbersome and expensive administrative procedures

Section 5

We also oppose section 5, which would repeal provisions of existing law giving Congress the opportunity to exercise oversight concerning decisions on automation programs The Office's automation programs

are expensive and important programs which deserve close continuing oversight by Congress as well as by the Executive Branch

Exchange Agreements

The bill omits section 6 of Public Law 99-607, which prohibits the Office from entering exchange agreements relating to automation, except agreements with foreign governments or international intergovernmental organizations The legislative history of Public Law 99-607 shows clearly why Congress decided to prohibit exchange agreements The Office entered into agreements which restricted access by the public to information concerning trademarks The prohibition against exchange agreements should be continued

***

In summary, we recommend continuing all of the limitations and oversight provisions of existing law We oppose H R 4972 to the extent it does not continue those provisions

We will be glad to provide additional information if requested

Sincerely,

Donald W Banner

Donald W Banner
President

[The statement of Mr Banner follows]

IPO INTELLECTUAL PROPERTY OWNERS INC

INTELLECTUAL PROPERTY OWNERS, INC

ON LEGISLATION TO AUTHORIZE APPROPRIATIONS FOR
THE PATENT AND TRADEMARK OFFICE

SUMMARY OF STATEMENT

- Some improvements have been made in the operations of the Patent and Trademark Office since the large increases in user fees were enacted into law in 1980 and 1982, but additional improvements are needed

- Patent filings in the U S are increasing substantially

  --A recent IPO survey of about 250 U S companies and universities shows a majority plan to file more patent applications in 1989 and 1993 than they filed in 1987

  --Japanese companies are filing applications in the U S at an especially high rate Seven of the eleven corporations receiving the most U S patents in 1987 were foreign controlled and five were Japanese, Japanese companies also are filing at a very high rate in Japan

- Surveys have shown a strong interest by industry and patent lawyers in improving the quality of patent examining A major factor adversely affecting quality is poor integrity of the paper search files

- Pendency time for biotechnology patent applications is an urgent problem

- Backlogs should be reduced at the Board of Patent Appeals and Interferences and in the Design Patent Examining Group

- The Gramm-Rudman-Hollings Act should be amended to exempt PTO user fees from the automatic reductions in government spending

- All of the limitations and oversight provisions of the last authorization act, Public Law 99-607, should be continued, including the prohibition against charging fees for use of the patent and trademark search rooms and the limitation on using fee revenues to pay for automation of the search files

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Mr Chairman and Members of the Subcommittee

I am appearing here today on behalf of Intellectual Property Owners, Inc (IPO) IPO is a non-profit association whose members own patents, trademarks, copyrights and trade secrets

I was one of the founders of IPO, served for several years as Chairman, and continued as a member of the Board of Directors I served as Commissioner of Patents of the United States, 1969 to 1971

IPO's members are responsible for a substantial amount of the research and development conducted in the United States, and they pay substantial fees to the Patent and Trademark Office They are interested in having the Office operate as effectively as possible

IPO testified before this subcommittee three years ago on the bill to authorize appropriations for the Patent and Trademark Office that became Public Law 99-607 Our views about the importance of a viable patent system, the need for high quality patent examining work, and adequate funding for the Office are unchanged from three years ago

We have not seen draft legislation the Administration is sending to Congress to authorize appropriations for the next three years, but we have developed recommendations based on our review of the PTO's 1989 Budget Submission to the Congress and other information

The 1980 and 1982 Fee Laws

Congress made important changes in Patent and Trademark Office fee legislation by enacting Public Laws 96-517 and 97-247 in 1980 and 1982 Since that time the amount of fee revenue collected by the Office has risen dramatically In 1982 the Office's fee collections totalled less than $29 million For 1989, they are estimated at $167 million

At the time of enactment of the 1980 and 1982 fee laws it was envisioned that the revenue raised by higher fees would be used to make improvements in the Office's operations, which for many years had been under-funded In 1982 Commissioner Mossinghoff testified that a principal purpose of the fee legislation was "to double the fee-recovery ratios for Patent and Trademark processing in order to provide urgently needed resources to the PTO for fiscal year 1983 and subsequent years "

Industry and the patent bar expected improvements in the Office would be made in the years following 1982, and some improvements have been made Later I will identify some areas where we believe additional improvements are needed

The history of the 1980 and 1982 fee laws also shows that Congress intended for certain operations of the Office to continue to be supported by appropriated funds This was confirmed by Congress when Public Law 99-607 was enacted in 1986 The history of fee legislation is outlined in the House Judiciary Committee's report on the bill that became Public Law 99-607

Certain costs of operating the Office confer no direct benefit on applicants, but go to the responsibility of the federal government to support the Patent and Trademark Office in order to execute the law Among others, such costs include the Office of the Commissioner, costs relating to public information, legislation and international affairs, and the cost of maintaining public search rooms

Rising Patent Filings

The cost of processing and examining patent applications is by far the largest single item in the Office's budget The number of patent applications expected to be filed is an important part of any discussion of the Office's budget IPO has compiled some information about patent filings which is set forth in appendices A-D attached to this statement

In May and June of 1988 IPO conducted a survey of future patent filing plans by major patent owners in the United States Two hundred forty-nine organizations responded to IPO's questionnaire Most respondents were U S companies and universities

Responses to selected questions are summarized in appendix A The respondents expect to file significantly more patent applications in the U S Patent and Trademark Office in 1989 and in 1993 than they did in 1987 Fifty-seven percent of respondents stated they plan to file more applications in 1989 than in 1987, with the largest number of those who stated their filings would increase estimating an increase of more than 10 but less than 20 percent Eighty-two percent of respondents who estimated their filings for 1993 projected an increase The largest number of those who projected an increase by 1993 said it would be more than 20 percent

These responses suggest that U S -based patent filers plan to continue a trend that began about 1985 of increasing their filings In the 1970's and early 1980's U S -origin patent filings were not increasing, and in several years they declined

We have not attempted to survey the patent filing plans of foreign companies The number of patent filings in the

U S from abroad has been increasing steadily for many years Recently the filings from Japan have risen very sharply

According to the Annual Report of the Commissioner of Patents and Trademarks, patents issued to foreign inventors in 1987 were 46 5 percent of all patents issued This was more than double the percentage 20 years earlier If foreign origin filings in the United States continue to increase, the United States will soon join the other major patent offices of the world, except Japan, in having more than 50 percent of their filings coming from abroad See appendix B

Appendix C shows that 7 of the top 11 and about 50 of the top 100 corporations receiving U S patents in 1987 were foreign controlled Five of the top 11 were Japanese

Appendix D shows that Japan, despite a smaller population than the United States, is the one major country whose residents are filing more patent applications here than our residents are filing there

Caution must be used in interpreting statistics, because differences in the patent systems in various countries make it difficult to compare one country with another One thing that is obvious is that Japanese industry is filing patent applications both in Japan and in the United States at an extraordinary rate

The PTO's Budget Submission estimates that 132,000 patent applications will be filed in 1989, up 4 4 percent from the 126,407 applications filed in 1987 In light of the results of the IPO survey of patent filing plans by U S - based patent owners and the long term upward trend in foreign-origin filings in the U S , we believe the Office's estimate may be too low

Comments on the PTO's 1989 Budget Submission

We have several other comments on the Office's 1989 Budget Submission to the Congress The budget document describes the five main highlights of the 1989 budget as follows

1 Continuing progress in achieving the goal to reduce the time of patent application pendency to 18 months by 1989

2 Maintaining the time of trademark application pendency at three months to first action and 13 months to disposal (registration/abandonment)

3 Continuing progress toward meeting the goal of automating the operations of the PTO by 1990

4 Strengthening the worldwide protection of intellectual property

5 Increasing user fee collections

We are not opposed to these objectives, but we have recommendations with regard to the Office's priorities In an IPO survey we reported in our testimony three years ago, patent owners ranked shortening the average pendency time of patent applications as sixth in importance of seven objectives for the Office High quality patent examination and automation of the search files were ranked much higher A more recent survey by the American Intellectual Property Law Association also shows strong interest by patent lawyers in improving the quality of patent examining We are aware that the Office has instituted a "Quality Reinforcement Program", which we support

A major factor adversely affecting the quality of patent examination is poor integrity of the paper search files Your Subcommittee heard testimony three years ago that large numbers of documents are missing or misfiled in the paper search files We believe that situation continues to exist

Nothing an examiner can do will enable him to properly examine an application if a pertinent piece of prior art is missing from the file that he has searched This not only adversely affects the quality of examination of patent applicants, but has placed the United States in a default position with respect to its obligations under the Patent Cooperation Treaty

Short patent application pendency is important for certain industries and certain patent owners It will become more important if the patent time is measured from the filing date, as is the case in many other countries

Companies in the biotechnology field currently are very concerned about the large backlog of unexamined biotechnology applications The Office has testified recently that it will be unable to reduce the backlog of biotechnology applications significantly for several years We urge doing everything possible consistent with maintaining high quality examination to reduce the biotechnology backlog

The 1989 Budget Submission shows backlogs in two units of the Office that we believe need greater resources Those units are the Board of Patent Appeals and Interferences and the Design Patent Examining Group In 1989 over 7,400 patent

appeals will still be awaiting a decision by the Board That is about a one and one-half year backlog Resources should be provided to reduce that period to six months or less Appeal fees are set to cover the cost, so it is unfair to applicants who have paid for the service to wait 18 to 24 months for results

The budget shows a continuing increase in the backlog of unexamined design patent applications Over 28,000 cases will be awaiting action by the end of 1989, nearly a three-year backlog Despite the lack of confidence by many people in the current design patent law, the number of design patent filings has increased every year since 1981

Design patent applicants often are interested in obtaining patent protection more quickly than other patent applicants Styles in the appearance of articles can change quickly While we support legislation to establish a new system for copyright-like protection for industrial designs, that legislation will not be a complete substitute for design patents The Office should plan to reduce the design patent backlog to a reasonable level Here, again, the user fees cover the cost of the service, so the service should be supplied in a timely manner

Amending the Gramm-Rudman-Hollings Act

The Patent and Trademark Office's 1986 spending was reduced by nearly $9 million as a result of a government-wide reduction in spending mandated by the Balanced Budget and Emergency Deficit Control Act of 1985, known as the Gramm-Rudman-Hollings Act That law is unfair as it applies to the Patent and Trademark Office and certain other government agencies that rely on user fees for a major part of their funding

The Gramm-Rudman-Hollings law requires spending to be reduced not only by a percentage of appropriated funds but also by the same percentage of an agency's user fee revenues This is a breach of faith with those who have paid the user fees, and imposes an inordinately high reduction on the agency involved In the case of the Patent and Trademark Office in 1986, over $5 million in user fees was returned to the general treasury instead of being spent for the benefit of the members of the public who paid the fees

The Gramm-Rudman-Hollings Act should be amended, as was proposed unsuccessfully in the Senate in the last Congress, to exempt user fees from the automatic reduction We urge this Subcommittee to renew that effort

91-204 O - 89 -- 3

Continuing the Provisions of Public Law 99-607

Besides authorizing the amounts of appropriations for fiscal years 1986 to 1988, Public Law 99-607 limits certain Patent and Trademark Office expenditures for those years and provides for specific Congressional oversight of certain activities of the Office relating to budgetary matters and search file automation projects It contains provisions to

- Limit increases in trademark fees and miscellaneous fees to the amount of increase in the consumer price index during the previous three years (sec 3(a) and (b)),
- Require the PTO to report certain budgetary information to the Committee on the Judiciary each year (sec 3(c)),
- Prohibit charging of fees for use of the public patent or trademark search rooms, and require the costs of the search rooms to be paid with appropriated funds (sec 4),
- Limit use of fee revenues to pay for automation and require advance notice to be given to Congress before key decisions are made on automation (sec 5), and
- Prohibit the PTO from entering exchange agreements relating to automation, other than agreements with foreign governments or international intergovernmental organizations (sec 6)

All of these limitations and oversight provisions should be extended or made permanent

A permanent consumer price index provision was added to the patent law in 1982 to limit future increases in patent fees The same limitation should apply to trademark and miscellaneous fees (We assume that the Office does not plan to propose any increases in trademark fees this year, since according to the budget submission the Office has a large surplus in trademark fees)

The prohibition against imposing fees for use of the public patent and trademark search rooms and libraries should be continued to assure wide dissemination of patent and trademark information to all segments of the public

An important purpose of both the patent system and the trademark system is to disseminate information In the case of the patent system it is information contained in published

patent documents concerning advances in technology In the case of the trademark system, it is information about registered marks which is disseminated to help businesses avoid conflicts with existing marks that can cause confusion of consumers

IPO strongly favors automating the Office's Patent and Trademark search files, but we do not believe automation should be taken as an excuse to charge the public for access to information that has been available for inspection free of charge since the beginning of the federal patent and trademark systems

The users of the search rooms are not special beneficiaries of the information provided by the search rooms Charges levied for access to information would be passed on to clients throughout the United States, amounting to a tax by the government on innovation and business investment The users of the search rooms at the Patent and Trademark Office also include many infrequent users such as small businesses and independent inventors who conduct their own investigations

The prohibition against charging for access to information in the search rooms in Public Law 99-607 carries forth the view that was expressed earlier in the legislative history of the 1980 and 1982 fee laws that there is a special benefit to the public at large from having the information in the search rooms and libraries made available free of charge It is appropriate to use appropriated funds to disseminate this information

The limitations on user fee revenues and exchange agreements to support automation and the requirement for advance notice of decisions on automation also should be continued The Industry Review Panel report on the automated patent system and an accompanying statement issued by the Department of Commerce on May 23, 1988 suggest that the Department is making needed improvements in the planning and management of automation work The personnel of the Department of Commerce and the Patent and Trademark Office should be commended for the progress made toward an automated patent system so far Because of the size and importance of this automation project, however, it is also desirable to have close continuing oversight by Congress as is provided in Public Law 99-607

Because it will be several years before the patent automation project is completed, automation is of little benefit to current patent applicants It would be unfair to these applicants to raise patent fees to pay automation costs Automation should be viewed as a long-term investment

to improve the Patent and Trademark Office for the benefit of the general public The limitation in Public Law 99-607 on spending user fee money for automation therefore should be continued

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The Patent and Trademark Office is a critically important government agency It helps provide strong incentives for technological innovation and business investment Every effort should be made to give it the support it needs

I appreciate this opportunity to present IPO's views I will be pleased to answer any questions

IPO INTELLECTUAL PROPERTY OWNERS INC

APPENDIX A

SUMMARY OF RESPONSES TO SELECTED QUESTIONS FROM IPO'S SURVEY OF ESTIMATES OF FUTURE PATENT FILINGS--JUNE 1988

Set forth below are selected questions from the IPO survey The numbers enclosed in square brackets in the blanks associated with each question are the numbers of respondents who answered the question by checking that blank Not all respondents answered all questions

The survey form was mailed to about 600 U S companies and universities including all Fortune 500 companies that file significant numbers of patent applications A total of 249 responses were received

IPO will publish a more detailed tabulation of responses to this survey during July

1 **How many U.S patent applications did your company file in 1987?**

[63] Over 100

[32] 50 - 100

[74] 10 - 50

[80] Fewer than 10

2 **Compared with the number of applications your company filed in the U S Patent and Trademark Office during 1987, estimate your likely filing rate in the U S..**

a. Next year (i.e , during 1989)--

[42] More than 20% higher

[60] More than 10% but less than 20% higher

[41] Up to 10% higher

[94] About the same

[6] Up to 10% lower

[3] More than 10% but less than 20% lower

[3] More than 20% lower

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b. **Five years from now (i e., during 1993)--**

[91] More than 20% higher

[50] More than 10% but less than 20% higher

[41] Up to 10% higher

[33] About the same

[1] Up to 10% lower

[2] More than 10% but less than 20% lower

[5] More than 20% lower

10. **Please mark the category that applies to you**

[54] Company with at least $5 billion annual sales

[52] Company with less than $5 billion but at least $1 billion annual sales

[21] Company with less than $1 billion but at least $100 million annual sales

[21] Company with less than $100 million annual sales

[72] University

[2] Government

[6] Individual patent owner

[21] Other (specify)_____

APPENDIX B

TOP 100 CORPORATIONS RECEIVING U.S. PATENTS IN 1987

(Compiled by Intellectual Property Owners Inc., March 1988)

Rank	Company	No.
1	Canon K.K.	847
2.	Hitachi, Ltd	845
3	Toshiba Corp	823
4	General Electric Co	779*
5	U.S Philips Corp	687
6.	Westinghouse Electric Corp	652
7	IBM Corp	591
8	Siemens A.G	539
9	Mitsubishi Denki K.K.	518
10	RCA Corp	504
11	Fuji Photo Film Co , Ltd	494
12.	Dow Chemical Co	469
13	E.I. du Pont de Nemours & Co	419
14	Motorola, Inc.	414
15	AT&T Co	406
16	Honda Motor Co , Ltd	395
17	NEC Corp	375
	Toyota Jidosha K.K	375
19	Bayer A.G	371
20	General Motors Corp	370
21	Sony Corp	332
22.	Matsushita Electric Industrial Co , Ltd	305
23	Nissan Motor Co , Ltd	304
24	Eastman Kodak Co	296
25	Mobil Oil Corp	292
26.	Ciba-Geigy Corp	286
27	Sharp Corp	284
28	Allied Corp	283
29	Texas Instruments, Inc	277
30	BASF A.G	263
31	Robert Bosch GmbH	262
32	3M Co	256
33	Fujitsu Ltd	241
34	Hoechst A.G	233
35	Xerox Corp	227
36	AMP, Inc	216
37	Phillips Petroleum Co	206
	United Technologies Corp	206
39	Ricoh Co , Ltd	204
40	Nippondenso Co , Ltd	184
41	Hughes Aircraft Co	183
42	Exxon Research & Engineering Co	171
43	Boeing Co	169
	Honeywell Inc	169
45	Union Carbide Corp	159
46	Rockwell International Corp	158
	Shell Oil Co	158
48	Alps Electric Co , Ltd	152
49	Olympus Optical Co , Ltd	146
	Texaco, Inc	146
51	Victor Co of Japan, Ltd	144
52	Atlantic Richfield Co	142
53	Ford Motor Co	138
54	Mazda Motor Corp	137
	Tektronix, Inc.	137
57	Aisin Chemical Co , Ltd	133
	GTE Products Corp	133
59	Chevron Research Co	132
60	Thomson-CSF	131
61	Hewlett-Packard Co	130
62	Procter & Gamble Co	127
63..	Comm. A L'Energie Atomque	126
64	Eaton Corp	123
	Merck & Co , Inc	123
66	Halliburton Co	120
67	Nippon Kogaku K.K	119
68	PPG Industries, Inc	118
	Warner-Lambert Co , Inc	118
70	Northern Telecom Ltd	117
71	Amoco Corp	110
	Imperial Chemical Industries PLC	110
73	American Cyanamid Co	107
	NCR Corp	107
75	Deere & Co	106
76	Konishiroku Photo Industry Co , Ltd	105
77	Fanuc Ltd	104
78	Pioneer Electronic Corp	100
79	Minolta Camera Co , Ltd	99
80	Sumitomo Chemical Co , Ltd	97
81	Sanyo Electric Co , Ltd	96
82	Stauffer Chemical Co	94
83	Daimler-Benz A G	93
	Kimberly-Clark Corp	93
85	Advanced Micro Devices, Inc	92
86	Monsanto Co	91
	Polaroid Corp	91
88	Standard Oil Co	90
	Sumitomo Electric Industries, Ltd	90
	Zenith Electronics Corp	90
91	Harris Corp	89
	Henkel KGAA	89
93	Mitsubishi Jukogyo K.K	88
	Sunstrand Corp	88
95	Hoffmann-La Roche Inc	86
96	Air Products & Chemicals, Inc	85
	Eli Lilly & Co	85
98	National Research Development Corp	84
99	GTE Laboratories, Inc	83
100	Raychem Corp	83

* - Does not include 504 RCA patents

NOTE *IPO compiled this list from data provided by the U S Patent and Trademark Office The numbers reflect patents issued during calendar year 1987 for which an assignment of title was recorded in the Office by the date on which the patent was issued Patents issued in the names of subsidiaries other related companies, or divisions have not been combined with patents issued in the name of the parent company The list does not reflect recent mergers, acquisitions and name changes*

APPENDIX C

IPO INTELLECTUAL PROPERTY OWNERS INC

PATENT FILINGS BY NON-RESIDENTS IN MAJOR COUNTRIES IN 1986

Ten Countries Receiving Largest Numbers of Patent Applications From all Sources in 1986[1]	Total Filings[2]	Percent of Filings by Non-Residents
Canada	27,757	92%
France	58,848	76%
Germany, Fed Rep	86,108	53%
Italy	33,756	98%
Japan	322,561	10%
Netherlands	33,656	91%
Sweden	32,641	86%
Switzerland	31,379	85%
United Kingdom	73,421	69%
United States	122,433	47%

Source World Intellectual Property Organization

---

1 Excludes Soviet Union

2 Includes filings via European Patent Convention and Patent Cooperation Treaty

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APPENDIX D

PATENT FILING "BALANCES" OF THE U.S. WITH OTHER COUNTRIES IN 1985

Ten Foreign Countries Receiving Largest Numbers of Patent Applications From all Sources in 1985[1]	Filings by Residents of that Country in U S	U S Filings in that Country	Filing "Balance" I e , Net Filings from U S (+) or into U S (-)
Belgium	477	7,001	+ 6,529
Canada	2,270	13,128	+10,858
France	3,959	12,327	+ 8,373
Germany, Fed Rep	11,300	13,477	+ 2,177
Italy	1,717	8,196	+ 6,479
Japan	22,103	13,359	- 8,744
Netherlands	1,281	8,179	+ 6,898
Sweden	1,740	7,374	+ 5,634
Switzerland	2,152	6,315	+ 4,163
United Kingdom	4,376	14,337	+ 9,601

Source World Intellectual Property Organization

[1] Excludes Soviet Union

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Mr KASTENMEIER Thank you very much We will defer questions until we have heard from the other two colleagues

Mr Joseph DeGrandi in behalf of the American Intellectual Property Law Association

Mr DEGRANDI Thank you for the opportunity to present our views to the subcommittee We have submitted a written statement to the subcommittee and we ask that it be made a part of the record We want to address three issues in our comments

Number one, the goals of the Patent and Trademark Office, number two, the collection and use of fees, and number three, the Automation Program

For the last 6 years the Patent and Trademark Office has been pursuing three goals The first is the 18 month pendency by the year 1989 We heard from the Commissioner this morning that he expects to get fairly close to that goal by the end of 1989

The second goal is 3 months for the first action on Trademark applications and 13 months to issuance of the registration Several years ago the Office met that goal and is still meeting it The third goal, of course, is automation of the Office and we will discuss this later in our presentation to you

We consider the most important function of the Patent and Trademark Office is to issue valid patents This is the purpose, the reason for its existence A valid patent which can be tested in and upheld by the courts and one that is going to be respected by the competitors

In 1985, AIPLA formed a special committee to study the quality of patent examining operations Right after our committee was formed, the Patent and Trademark Office committed itself to a quality reenforcement program Our quality committee and the PTO officials, including senior examiners, have been working together to find ways to improve the quality of issued patents

Questionnaires have been sent out to members of our organization and we received over 1,000 replies from our members The examining corps was also given questionnaires as to what it is that they see should be improved in the PTO The goal of these questions, of course, is to identify the problems

A number of these problems have been identified For example, the bar indicated that the examiners are not effectively communicating the reasons for their actions

The examiners, for example, say that foreign applications filed in the Patent and Trademark Office are in a poor format at the time they are filed Steps are being taken right now by the PTO to correct some of these problems

The Patent and Trademark Office has recognized that quality must be actively pursued The Patent and Trademark Office is recognizing that management and supervision must be improved The training and education of new examiners and also senior examiners must be upgraded and the Office has taken steps to do this

All of these procedures, of course, will take time AIPLA urges the subcommittee to encourage the quality reenforcement program and reaffirms its previously stated view that the PTO must not sacrifice quality for quantity, even if it means extending the goal of 18 by 1989 to a later year

Quality should be in the forefront

On the second issue, collection and use of fees AIPLA supported the first increase in PTO fees in 1980 AIPLA was opposed to the second fee increase in 1982

We thought the fees were too high in 1982 We still believe that the fees are too high High fees discourage the use of the patent system by independent inventors and also by American businesses

From 1974 to 1986 there has been a 25 percent decline in the filing of U S applications by American companies In 1974, American companies were filing over 50,000 patent applications a year In 1986, that figure is only 38,000 Foreign applications have increased 28 percent during this time

In 1984, foreign applications—U S applications filed by foreigners were approximately 25,000 In 1986 they have increased to 33,000

AIPLA sees a real problem regarding Patent and Trademark Office fees There are three kinds of costs involved in running the Patent and Trademark Office First, there is a cost of providing processing services required by the applicants, namely, the examination of their applications and the issuance of patents

The law was changed in 1982 so that 100 percent of the processing costs are to be borne by the users, applicants that file in the Patent and Trademark Office

The second kind of cost is the cost of services, for example, providing copies of patent applications, certified copies, providing copies of patents, copies of assignments filed in the PTO, etc One hundred percent of these costs are borne by the users

Then there is another kind of cost The cost of running the Patent and Trademark Office, such as the Commissioner's Office, the general administration of the PTO, the public information service provided by the PTO, the Solicitor's Office, the Office of Legislative and International Affairs, the Public Search Room, etc These costs should be paid by appropriated funds and not by user fees, since in these costs for these particular services benefit the public as a whole and do not benefit only the applicants that are filing applications in the PTO

In the past 3 years, the PTO has been collecting excessive fees At the insistence of the Senate, the PTO was allowed to use the excessive fees for automation purposes up to a particular amount

AIPLA opposes this A reasonable and fair user policy must include a strict prohibition against charging users more than the cost of providing the services requested by applicants It is all right to charge applicants for what it costs to examine their applications to issue patents but to ask the applicants at the same time to bear these additional costs is, we feel, very unfair

The law says that trademark fee receipts may only be used to run the trademark operation By law, such fees are segregated from patent fee receipts

Trademark fee receipts each year are in excess of what is required to run the trademark operation of the PTO We understand that there is currently in excess of $12 million in surplus fees, although the Commissioner indicated a few minutes ago that the surplus is about $7 million

It appears to us that the PTO has become a profit-making entity with respect to trademark fees

AIPLA recommends that the subcommittee direct the Patent and Trademark Office to reduce trademark fees to the level where collected fees correspond to the cost of providing the services requested by trademark users

AIPLA further recommends that all PTO fee increases be tied to the consumer price index for the next 3 fiscal years

Furthermore, we urge the subcommittee to evaluate whether this policy should be made permanent by amending titles 15 and 35, rather than deciding this in reauthorization legislation

For fiscal years 1980 to 1982 the Patent and Trademark Office collected about $75 million in user fees For the fiscal years 1986 to 1988, the Patent and Trademark Office has collected close to $400 million in user fees

In view of this enormous increase in fees, the requested moderate restriction is reasonable

With respect to the third issue, automation of the Patent and Trademark Office, we want to state that from the outset, AIPLA has supported the creation of an automated patent system or APS, as has this subcommittee

In early 1986, AIPLA formed a Group 220 Test subcommittee comprising 20 patent lawyers, many employed by computer companies, to study the plan proposed by the Patent and Trademark Office to create a simulation of APS for the use of about 55 examiners in Group 220

This is the so-called Group 220 Test that we have heard so much about

Our committee has worked with the PTO in considering the details of the Group 220 Test We want to see an automatic patent system which accomplishes the goals contemplated by the PTO which is cost effective and which can also be effectively used by the public

The most serious problem of APS planning is the failure to adequately consider the needs of the public users of APS

We believe that the PTO is taking a very provincial view with respect to this public resource, this data base which is being compiled Examiners only make novelty searches to ascertain the patentability of the disclosed inventions If the Patent and Trademark Office is to come up with the system which is going to assist the examiners in making the novelty searches, it is going to spend several hundreds of millions of dollars for this system

Patent lawyers need to use this data base Professional public searchers also make novelty searches, but they also make infringement searches and validity searches

Will the APS software and performance specifications which are being developed by the PTO be adequate for public user needs in the future?

We don't know After 2 years of urging by AIPLA, the PTO has agreed to conduct what is known as Study 22 AIPLA formed a committee together with Mitre Corporation which is devising a plan which is being carried out by approximately 100 professional searchers in the PTO

They have volunteered their time to this particular project

They are trying to ascertain whether the APS system, the automated patent system, is actually going to meet the needs of the

public AIPLA firmly believes that the data base being assembled for the automated patent system should not be considered as being primarily a tool for patent examiners to conduct novelty searches

This is going to be an extremely expensive tool, if that is the primary purpose of the data base

Neither should it be considered to be a system which will be used only by patent lawyers and professional patent searchers, in addition to the examiners The data base is going to be an invaluable asset for all members of the public

It should be made easily accessible to universities, to industry, to research companies, to all interested parties throughout the United States It should be viewed not only as a national resource, but as a national treasure You are going to have in one place all of this information Right now many small businesses, when they start to come out with a new product, the first thing they ask patent lawyers to do is give them a collection of patents showing the state of the art What is already out there What should we know before we start developing a new product?

We don't want to keep re-inventing something that has been invented many times over by other people Companies embarking on new products can readily ascertain what is already known in the field

There will be no need for them to re-invent what is already known Companies can take the known data and begin their research and development from that particular point The wide dissemination of this information in electronic form can be more readily achieved than can be the dissemination of the information in the paper files which are in a central location in Washington, DC

The Japanese Patent Office is currently automating its research files and its automation effort has always been primarily focused on assisting Japanese industry They have three public search rooms outside of Tokyo and they have a public search room in Tokyo

The patent search file data base can be searched by the public at all of these four locations on the same type of computer terminals used by the Japanese Patent Office examiners and the Japanese searchers pay no fees whatsoever to use the system

They only pay for the copies of references that they find in the system

The automation benefits are being shared with the public The public is learning how to use this system being developed by the Japanese Patent Office

The public and examiner needs are continually monitored and the system is adjusted as necessary The public really has hands-on use of the system

This is what we would like to see here in the U S The PTO focus in this country is to provide the APS to the patent examiners They are spending several hundreds of millions of dollars to develop a system for 1,500 examiners AIPLA recommends that the subcommittee urge the Patent and Trademark Office to devise effective methods to disseminate the information in the APA data base to industry, to universities and to the public Satellite public search rooms in various locations throughout the country should be considered

The subcommittee should urge the PTO to deploy the APS to the public search room as soon as APS is deployed to the examining corps beyond Group 220

AIPLA urges the subcommittee also to retain the four automation-related provisions found in Public Law 99-607, with one modification The PTO should not be authorized to charge a fee to use the public search room

Secondly, the PTO should not be allowed to divert processing fees for that purpose

Thirdly, the PTO should not use barter agreements with private commercial vendors for automation resources This subcommittee and the House of Representatives voted to prohibit directing processing fees for use in funding automation

At the insistence of the Senate, this policy was compromised several years ago The AILPA believes that the subcommittee was correct in 1985, and this subcommittee should reaffirm that decision for the next 3 years

AIPLA also supports the "90-day wait and see" provisions found in Public Law 99-607 We are extremely concerned about the cost of operating the automated patent system

Cost is extremely important to inventors and to companies The cost of providing examiners with APS and maintaining the system will be paid for by the users, since the law provides that patent user fees covered 100 percent of the examining function

The PTO wants the users to pay for the APS in the public search room Our best estimate as set forth in our report is it may cost an additional $50 million to do this in the public search room We may be in danger of putting the system out of reach for independent inventors

High costs are going to be a deterrent to the filing of applications, even for large corporations We have been trying to get cost figures from the PTO without success How much is this system going to cost after it is all in place?

If it is going to cost an inventor $5,000 to $10,000 to file a patent application and prosecute it, he is going to think twice before spending that kind of money

AIPLA strongly believes that developing automation programs which go to meet the responsibility of the Federal Government to have a Patent and Trademark Office in order to execute the law should be supported by appropriations and not by user fees

Mr Chairman, thank you for the opportunity to make our views known to the committee and to the subcommittee here and we will be glad to answer whatever questions the subcommittee members may have

[The statement of Mr DeGrandi follows]

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STATEMENT OF

JOSEPH A DeGRANDI, PRESIDENT

AMERICAN
INTELLECTUAL PROPERTY LAW
ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES
AND THE ADMINISTRATION OF JUSTICE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 29, 1988

ON

REAUTHORIZATION OF THE PATENT AND TRADEMARK OFFICE

Formerly AMERICAN PATENT LAW ASSOCIATION

We appreciate the opportunity to offer the Subcommittee our opinion of the performance of the Patent and Trademark office (PTO) since it was last authorized in 1986. The PTO mission is important to the public economic welfare The PTO provides important services to inventors and to businesses which use trademarks The 5600 members of AIPLA represent the users of PTO services and so are knowledgeable about how efficiently and effectively those services are provided.

Our testimony today addresses three issues, goals of the PTO, the collection and use of fees, and the automation programs Before discussing these issues, we would like to express our thanks to you Mr Chairman, and to the members of the Subcommittee for taking an active role, especially since 1979, to strengthen the patent laws and improve the operation of the PTO Congress must give the PTO direction and guidance based on broad public policy considerations This Subcommittee has been instrumental in providing it in the past and must continue to do so in the future

Patent and Trademark Office Goals

Without any question the most important element of PTO performance is the quality of its product Issued patents must be valid Patentees who invest in commercialization with the mistaken belief that they own valid patent rights in an invention can be severely damaged financially The harm to their competitive position will often be compounded by the expense of litigating the patent in question The same considerations apply to registered marks

For the past six years, the Commerce Department has directed the Office to pursue three goals Two are the production targets of 18 months patent pendency by 1987, now 1989, and 3 months to first action on trademark applications and 13 months to issuance by 1985. We support these two goals The trademark goal has been reached. The patent production goal is apparently going to be reached However, the "18/89" goal should not interfere with the allocation of sufficient resources to improve the quality of patent examination.

The third Office goal is automation Automation may well improve the quality of patent examination and prosecution some day in the future However, this is a long range project which will be extremely difficult to fully achieve Before it is achieved, hundreds of thousands of patents will issue

The AIPLA formed a special committee in the Fall of 1985 to study the quality of patent examining Shortly thereafter, the PTO committed to a "Quality Reinforcement Program " The AIPLA Quality Committee and an assigned group of senior patent examiners

directed by Assistant Commissioner Tegtmeyer have been working together since then The overall effort is to analyze how consistently and effectively patent examiners apply existing law and procedures to applications and how effectively the examiners communicate their decisions and findings to applicant's attorneys A part of the effort is also to evaluate how effectively applicant's attorneys interface with examiners The goal is to identify problems which negatively impact on the quality of patent examining and devise solutions to those problems

In addition to the experience and expertise of the AIPLA Quality Committee members and the counterpart PTO working group, several questionnaires and studies were used in the information gathering phase of the effort For example, in October of 1986, a comprehensive questionnaire entitled "Attorneys Perception of Patent and Trademark Office Quality" was distributed to all AIPLA members More than 1,100 responded A survey of the patent examiners perception of attorneys practice was distributed throughout the examining corps.

A number of problems have been identified For example, the attorneys survey showed that examiners are not effectively communicating the reasons for their actions. The examiners survey showed that foreign originated applications are often in a poor format at filing The AIPLA-PTO committees are in the process of attempting to define and implement solutions to these and other identified problems The PTO is now actively pursuing a number of corrective actions At the AIPLA Annual Meeting in October, the bar will be educated on certain changes in practice which will help the examiners do their work with increased quality

Although this effort to improve patent examining quality is at an early stage, we are encouraged and cautiously optimistic that meaningful improvements will take place The PTO has not only recognized that quality must be actively and vigorously pursued, it is also pursuing it We believe the PTO is recognizing that management and supervision must be improved and that training and education of new and senior examiners upgraded

However, we also believe that the production goal of "18 by 89" may prove to be a real obstacle to improvement in the quality of examiners performance Each examiner's performance rating is directly tied to the number of "disposals" he makes A disposal is to accept or reject an application Each examiner must meet or exceed a production quota in order to be promoted or to receive a cash incentive award Even the examiners who serve as supervisors are judged by their own production numbers and those of the examiners they supervise The effort by an examiner to more clearly and completely explain the reasons for a decision will inevitably take more time. The effort by a supervisor to better educate and train a younger examiner in his group will inevitably take more time for both of them In these practical terms, the

goals of production and achieving higher quality conflict There is no possibility that the "18 by 89" production goal will be changed in this year Therefore, while we believe the PTO is recognizing problems which cause diminished quality, we doubt if meaningful improvement is possible in the immediate future The challenge is to achieve the necessary flexibility to meet an acceptable balance of both goals

We would urge the Subcommittee to encourage the Quality Reinforcement Program and reaffirm its previously stated view that the PTO must not in any way sacrifice quality for quantity.

Collection and Use of Fees

The Congress, ratifying the decisions of this Subcommittee, raised PTO fees in 1980 in P L 96-517 and again in 1982 in P L. 97-247 We supported the first increase We opposed the second because we believed and continue to believe that the second increase was excessive

The Congress, again ratifying the decision of this Subcommittee, acted to moderate further increases in PTO fees in P L 99-607 in 1986 which was the last reauthorization of the Office The law prohibited increases in trademark processing fees (15 USC 1113) and miscellaneous patent processing fees (35 USC 41(d)) which exceed the percentage fluctuation in the Consumer Price Index during the three previous years That meant that all PTO fees were tied to the CPI P.L 99-607 also prohibited assessing new fees for existing services

We recommend the Subcommittee continue to require that all PTO fee increases be tied to the CPI for the next three fiscal years We would also urge the Subcommittee to evaluate whether this policy should be made permanent by directly amending Titles 15 and 35 rather than deciding this each three years in reauthorization legislation. In Fiscal Years 1980-1982, PTO collected approximately $75 million in user fees In Fiscal Years 1986-1988 we estimate that fee collections were close to $400 million In view of this enormous increase in fees, this moderate restriction is reasonable.

Fee setting policy, or the lack thereof, in the trademark operation continues to be a serious and abusive situation Trademark fee receipts are segregated by law from patent fee receipts (35 USC 42(c)) and may be only used for the trademark operation It is our understanding, although specific figures are not available to us, that the PTO has collected more in trademark fees in each of the last 6 fiscal years than the total cost of the entire trademark operation in each year We further understand that there is currently a $12 million surplus in the trademark account. P.L 99-607 requires the PTO to submit detailed

information to the Judiciary Committees each year on fee collections and the use of fee income If the PTO has complied with PL 99-607, this Subcommittee can verify the trademark fee situation.

If our understanding is correct, trademark system users are being forced to pay more in fees than it costs the government to provide the services requested. We do not believe Congress has authorized the trademark operation to be a "profit making" entity. Justice Douglas writing for the majority in National Cable Television Association Inc. v. United States, 415 U S. 336, (1973), a case which struck down certain Federal Communications Commission fees as being beyond the power of the FCC to charge said:

> Taxation is a legislative function, and Congress, which is the sole organ for levying taxes, may act arbitrarily and disregard benefits bestowed by the Government on a taxpayer and go solely on ability to pay, based on property or income. A fee, however, is incident to a voluntary act, e.g., a request that a public agency permit an applicant to practice law or medicine or construct a house or run a broadcast station. The public agency performing those services normally may exact a fee for a grant which, presumably, bestows a benefit on the applicant, not shared by other members of society It would be such a sharp break with our traditions to conclude that Congress had bestowed on a federal agency the taxing power that we read 31 U S C 483a narrowly as authorizing not a "tax" but a "fee " A "fee" connotes a "benefit" and the Act by its use of the standard "value to the recipient" carries that connotation. The addition of "public policy or interest served and other pertinent facts," if read literally, carries an agency far from its customary orbit and puts it in search of revenue in the manner of an Appropriations Committee of the House

See also Federal Power Commission v. New England Power Company 415 U.S. 345 (1973). We commend these cases to the Subcommittee for review. Whether or not the current trademark fees are unlawful in that they constitute a tax, we would recommend that the Subcommittee direct the PTO to reduce trademark fees to the level where fee receipts collected correspond to the cost of providing the services requested by trademark users This same issue is presented regarding patent fees, although the abuse is not as apparent. Patent processing fees are set to recover the full cost of patent prosecution. Yet the PTO has been collecting "excess fees" in each of the past three fiscal years In PL 99-607, at the insistence of the Senate, the Office was allowed to use these "excess fees" for automation purposes. We oppose that. We feel that a reasonable and fair user fee policy must include a strict prohibition on charging users more than the cost of providing the services requested. The PTO, speaking from the management

perspective of the Office of Management and Budget, says it's "prudent" to charge excess user fees We believe it's contrary to law and fair public policy. We urge this Subcommittee to specifically prohibit the continuation of this abuse.

Automation

In the two years prior to the Subcommittee hearings on the last PTO authorization bill, the General Accounting Office investigated both the trademark and patent automation projects Both of the GAO reports were critical of PTO performance The details of those reports were considered by the Subcommittee and the following amendments were made to the bill·

* The PTO was prohibited from spending user fee income for the automation programs during FY 1986-1988, and

* No exchange or "barter" agreements could be entered into to obtain services or materials relating to automatic data processing resources, and

* The PTO was prohibited from using processing user fees or charging direct user fees for use of the patent or trademark search libraries

The Senate agreed to prohibit the barter agreements but did not agree that automation should be funded only by appropriated funds The Senate added to the legislation a provision whereby the PTO could not make a "key deployment" decision without justifying the cost and benefit to the Congress and then waiting 90 days before proceeding The Senate agreed to prohibit user fees to support the public search rooms

Ultimately PL 99-607 prohibited the exchange agreements, retained the 90 day "wait and see" deployment provisions, authorized the PTO to fund automation up to 30% of the cost with user fees collected for patent processing, and prohibited user fees for the public search libraries

The Congress was concerned with the planning, cost and implementation of the automation programs in 1985 and 1986 and must remain concerned today

At the time of the Subcommittee's hearings in 1985 the PTO was preparing for the critical "Group 220 Test" of the Automated Patent System (APS) The plan was to create a simulation of APS for the use of a group of fifty-five examiners (Group 220) which are assigned all national security related applications and because of that consider chemical, mechanical, and electrical applications. The test was scheduled to begin in July of 1986. After the test was completed and the results analyzed, the PTO intended to decide

whether or not to begin to deploy the APS throughout the examiner corps.

In early 1986, AIPLA formed a committee of 20 patent lawyers, many of whom are employed by computer companies, to study the Group 220 Test plan to ensure the test was meaningful both as to examiner use of APS and public use. We strongly believed then and continue to believe today that the APS must not move beyond the planning and testing phase until it is persuasively demonstrated that the system provides the benefits promised to both the PTO and public users and that the costs of operating APS are justified by those benefits.

Also in early 1986, the Commerce Department established the "Review Board for Evaluation of the Group 220 Testbed." The Board is comprised of representatives of the Office of the Secretary of Commerce, the National Bureau of Standards Institute of Computer Sciences and Technology, the Office of Management and Budget, and the Congressional Research Service At that time, the Secretary wisely decided that the decisions on deployment of APS would be made by him with the advice of the Review Board and the PTO.

For the next two years, the AIPLA Committee, the Review Board, and the PTO considered the details of the Group 220 Test The test did not begin in July 1986 but began in January of 1988. The test has been completed and the gathered data is being analyzed. No report has been made public.

In November of 1987, the Review Board formed an Industrial Review Panel (IRP) composed of senior private industry technical managers who are experienced in the application of advanced information systems technology. The IRP was chaired by a government employee, the Director of the NBS Institute for Computer Sciences and Technology.

The IRP was not, nor did it claim to be, expert in patent searching or knowledgeable about the needs of the patent examiners and the public which the searching function of APS is being created to meet Rather its mission was to examine the technology of APS to determine whether it is feasible for PTO requirements as described, whether industry is capable of producing the hardware and software, whether the available components can be successfully integrated, and whether the projected costs are realistic

The IRP made a report in March of 1988 which was not made available to AIPLA until late May We will not reiterate the recommendations of the IRP in detail because the Subcommittee has the report. We understand the Department of Commerce has accepted the recommendations and will implement them In our opinion, this means that APS will remain in the testing phase for at least the next 18 months and perhaps longer

The Executive Summary of the IRP report begins with the following concerns which prompted the formation of the IRP:

* the need for APS was overstated and that the benefits of automation could be achieved with a much less ambitious system

* the design of the system was "gold plated", the system was being over-engineered and expensive custom components were being used where cheaper off-the-shelf products were available, and

* PTO's management of the APS effort was ineffective leading to cost overruns and schedule slippages.

As to the third concern, the Department of Commerce has already acted to change the APS management structure and personnel The first two concerns are critical.

We support creating the APS as has this Subcommittee since 1980 Ultimately it will benefit the PTO and the public. However, the design of the APS was "gold plated", over engineered, and dependent on extremely expensive custom components. The IRP recommendation to test alternate architecture is an excellent contribution and long overdue. By adopting this approach, even greater savings may be possible. Unfortunately, the PTO, in the past, refused to consider any alternates to the original design. The decisions as to development and deployment were being driven by an unrealistic self imposed time schedule

Can the benefits of automation be achieved by a less ambitious system? The IRP is not competent to answer that question Only patent professionals who understand the uses to which the system will be put can. Certainly the recommendations of the IRP which promise cost savings go in the right direction The PTO, which has a large number of patent professionals, has agreed to the original design and now has agreed to the IRP modifications. However, AIPLA is not convinced as yet that a less ambitious system cannot be acceptable. We are actively considering this issue and will inform the Subcommittee of our conclusions.

The Subcommittee should understand that no one knows whether the APS as now designed or with the modifications recommended by the IRP will operate as planned This is an extremely large data retrieval system with critical components which are experimental in nature Only after a careful full load simulation done in the context of the revised Group 220 Test can that judgment be made In other words, the system may have to be changed or scaled back out of technical necessity.

Perhaps the most serious problem of APS planning is the failure to adequately consider the needs of public users of APS

Patent examiners make novelty searches. Patent lawyers and professional public searchers make novelty searches but also make infringement or "right to use" searches, and validity searches Will the APS software and performance specifications be adequate for public user needs? We do not know After two years of urging that public needs be tested and evaluated, the PTO agreed early in 1988 to conduct "Study 22." The AIPLA committee with the assistance of MITRE Corporation devised a test plan which is now being carried out by nearly 100 public searchers who have volunteered their time. While Study 22 is a modest effort compared with the Group 220 Test, it is progress. We will provide the Subcommittee with our evaluation of the Study 22 results.

The most serious questions about APS, in addition to will it meet PTO and public needs, relate to the costs. How much will it cost to purchase and deploy? How much will it cost to maintain? How much will it cost to use? The IRP report said "we were not provided with a current, overall estimate of the total costs of the APS program." We believe that no one knows how much it will cost to acquire. We do know the PTO has already spent $81 million and the remaining life cycle of the Planning Research Corporation contract is now estimated at $448 million but PRC costs are only a part of the program cost. No one knows how APS use will impact on the examiner corps operating costs. No one knows the cost impact of APS on public searching

Sometime in the near future, the Department of Commerce will ask this Subcommittee to approve deployment of the APS system beyond Group 220. The report will be accompanied by a detailed explanation of the feasibility of APS and the benefits it will provide. We urge the Subcommittee to insist now, that a clear and comprehensive cost analysis also be provided. Regardless of the feasibility, it may be that the APS benefits are not justified by the cost. In short, we may not be able to afford to pay for APS in the configuration and deployment schedule offered. By "we" we mean both the Congress and the public users. In addition to the cost/benefit analysis, the Subcommittee should insist upon being presented less expensive alternate deployment proposals. Computer technology is evolving rapidly and costs of hardware, particularly, tend to decrease. The $75,000 work station of today may cost far less in the near future. This Subcommittee should not be put in the position of having to decide to either proceed with APS or stop it entirely. Options should be no problem to provide

The Subcommittee should also focus beyond the testing phase to the policies which underlie the deployment of APS. The patent search library is by far the largest collection of technical information in the United States. With the inclusion of foreign references in the APS data base, it will become more complete and will provide a current and worldwide view of technology development.

Obviously, the patent search library is essential to the patent system However, we believe this library is a very valuable governmental asset which should be exploited to improve industrial innovation and competitiveness in the United States Understanding current technological progress is valuable for research purposes A fundamental purpose of the patent law is to make the public aware of the contents of issued patents so that progress in the arts will occur. The fact that the information has been in paper form has discouraged dissemination of it Now that this problem is being overcome, we must, as a matter of basic policy, plan to more efficiently use that information

The Japanese Patent Office (JPO) is currently automating their search files Also, by 1990, the JPO will begin to accept patent applications in electronically transmitted form and the examiners will respond electronically. The Japanese automation effort has always been primarily focused on assisting Japanese industry In 1986, all Japanese patents were captured on a digitized data base Three public search rooms were established in cities outside of Tokyo as well as one in Tokyo The patent search file data base can currently be searched by the public at all four sites on the same type of computer terminals that the JPO examiners now use Japanese searchers pay no fees to use the system although they are required to pay for copies. In Japan, whatever automation benefits the examiners have is shared by the public In addition to on line benefits, a unit of the Ministry of Trade and Industry called JAPIO sells, at cost, entire classes or subclasses of the automated search file to industry That means, for example, a chemical company can obtain all chemical patents, and regular updates, in machine readable form for in house patent as well as research related purposes

There are obvious advantages to this approach above and beyond the information disseminating benefits As the Japanese automation system develops and expands, the public is learning how to use it. Public and examiner needs can be continually monitored and the system planning can be adjusted as necessary. As the IRP said "it is not possible to realistically determine many of the specific functional and performance requirements for APS without hands on use."

The USPTO focus and priority is to provide APS to patent examiners The dissemination of the search file information to the public is in the talking not planning stage. Even then, the talk centers on disseminating through the Patent Depository Library System which in our opinion is unrealistic. As to patent professionals, the PTO plans to deploy APS through the entire examiner corps before beginning to put the APS search terminals in the public search library in Arlington, Virginia This means that three or four years will go by before the public begins to receive the benefits of APS which the examiners receive

This myopic view of the potential of APS, is worsened by the overriding desire of the Administration to generate ever more user fees. The PTO continues with an aggressive "take it or leave it" attitude that if the public doesn't agree to pay for use of APS in the search room it can make do with the unacceptably deficient paper files. The Administration apparently believes that Congress, in supporting APS, would authorize and appropriate $500 million or $600 million to acquire a computer system to help 1500 patent examiners do their jobs more efficiently We believe that APS must benefit the entire patent system to the maximum extent possible. If not, APS is not worth the enormous cost

We recommend that the Subcommittee strongly urge the PTO to adopt two changes in current policy First, to begin serious planning now to devise effective methods to disseminate the information in the APS data base to industry Satellite public search rooms should be considered The National Technical Information Service of the Commerce Department should become involved in providing the service JAPPIO provides to Japanese Industry if the PTO is not able to do it Second, the PTO should plan to deploy APS to the public search room as soon as APS is beginning to be deployed to the examiner corps beyond Group 220 The benefits are obvious for effective system development as well as for information dissemination

We also urge the Subcommittee to retain the four automation related provisions found in PL 99-607 with one modification The PTO should not be authorized to charge a fee to use the public search libraries, nor should it be allowed to divert processing fees for that purpose. The PTO should not use barter agreements with private commercial vendors for automation resources As to the modification, this Subcommittee and the House of Representatives voted to prohibit diverting processing fees for use in funding automation At the insistence of the Senate this policy was compromised The Subcommittee was correct in 1985 and should reaffirm that decision for the next three years We also support the 90 day wait and see provisions found in PL 99-607 At this critical juncture, congressional oversight should, if anything, be increased, and certainly not decreased.

While we do not know what APS will cost to operate, we do know that the Administration wants inventors to pay for all of it As we said earlier, PTO user fees since 1982 have increased more than $100,000,000 per year The law now provides that patent user fees are set to recover 100% of the cost of the examining function Therefore, the cost of providing the examiners with APS and maintaining the system will be totally paid by users. The Administration also wants to require inventors and members of the public to pay for the APS in the public search room Even assuming APS will not increase the time it takes to make a search, and APS may prove to be slower than manual searching, our best estimate is that if users are required to pay for the total cost of APS, that

may add $50,000,000 per year to the cost of using the patent system Our estimate may not be accurate, and a better estimate must be made However, a further cost increase of this magnitude will put the patent law out of reach for independent inventors and provide a meaningful deterrent to filing applications even for large corporations

In addition to the cost implications there are other compelling reasons for the PL 99-607 automation provisions As to the search libraries, the Subcommittee report in 1985 clearly and correctly said

> The search libraries are used by many other members of the public besides patent and trademark applicants Making official government records available for inspection by the public is one of the most basic functions of government Having patent and trademark records freely available to the public and widely disseminated gives a valuable benefit to the public at large As regards patents, such access also stimulates scientific inquiry and research by providing access to inventive materials In the context of trademark, access makes it possible for constructive notice of proprietary rights to occur

As to the use of processing fees for automation, simple principles of equity are very relevant During the next three years, the APS will be in an experiment and testing phase Applicants who pay fees for patent processing services during the next three years will get no benefit, direct or indirect, from the APS testing and development Why should users be required to pay fees to support programs which do not benefit them? As this Subcommittee said in 1985, "certain costs of operating the Office confer no direct benefit on applicants, but rather go to meet the responsibility of the Federal Government to have a Patent and Trademark Office in order to execute the law " Developing automation programs should be supported by appropriations

A final word on an important issue related to automation which was addressed by the Subcommittee is as follows

> The Committee believes that the paper patent search file cannot be allowed to deteriorate. The paper search file cannot be scrapped instantly when an automated system is completed Even if the search file is automated by 1990, as planned, improvements are needed to be made in the paper search files in the meantime If the subject matter classification system for the search file is not continually updated to keep pace with changing technology, the search file will become less effective for finding relevant documents The patent subject matter classification system will still be needed when the automated system becomes available.

Despite the admonitions of the Subcommittee, the paper files continue to be maintained in an unacceptable manner. Integrity is lacking. The Office is very short on space in the public search room Resources are not being devoted to the search files which remain a critical source of information to the public We urge the Subcommittee to request a special report from the PTO on the current state of the public search files and what it intends to do to improve their usefulness. Improving these files is not a priority of the PTO and does not fit within the three Departmental goals for the PTO. Presumably, no increase in funds has been requested to upgrade the search room files. Despite that, this Subcommittee is in a position to direct the PTO to do something positive about this chronic and serious problem

* * *

This completes our statement I will be pleased to answer any questions the Subcommittee may have

Mr KASTENMEIER Thank you, Mr DeGrandi

Mr DEGRANDI I should have introduced my colleague On my left is our Executive Director of AIPLA, Mr Michael Blommer

Mr KASTENMEIER Thank you We would like to hear from Gerald Yung on behalf of the Information Industry Association

Mr YUNG Good morning, Mr Chairman I am Gerald Yung, Vice President, Government Relations at Mead Data Central, the company which offers the LEXIS, NEXIS, and LEXPAT computer information services Today I am representing the Information Industry Association

The IIA is a trade association of over 700 companies pursuing the business opportunities associated with the creation, distribution and use of information Many of our members, like my company, serve the markets for scientific, technical, legal and marketing information

These information needs cannot be fully served without providing access to patents and trademarks Thus, IIA members in the patent and trademark information business rely on the Patent and Trademark Office to supply them data on magnetic tape for value-added use

These arrangements exemplify a workable partnership where the Government's unrivaled ability to collect information is matched with the private sector's strength in dissemination Private companies are especially well-suited, we think, in a way that the Government is not, to add value through formatting, indexing, searching features and merging Government information with other sources of data

As an example, my company, MDC, used this information to create a full text data base of U S patents The resulting information system, which we call LEXPAT, has been in operation since 1984 and is used by virtually all U S patent attorneys

It gives researchers the ability to retrieve in less than half a minute all patents from 1975 to the present These patents can be reviewed on a subscriber's own terminal screen, printed on an attached printer or we will mail them these retrieved patents by overnight mail

We think a partnership of this type is significant and benefits the Government and taxpayers alike by disseminating important Government information to the public without significant cost to the Government

Those seeking information are further benefitted by the intense private sector competition to develop better ways to serve them This partnership helped to put the U S in the forefront of the global information industry

Today we come here, however, to express some concern about three aspects of the current PTO automation activities First, the Office's patent depository library program stands in need of congressional attention

It is unauthorized and should be reexamined in light of overall executive information policies

Second, the matter of entry and use of privately published copyrighted materials into any PTO data bases or files need to be clarified

Third, on the matter of charging for fees or reference room use, we think some charges actually should be permitted Let me quickly take each of these points in turn

Mr Chairman, the relevant language from the current law states that the Commissioner may supply printed copies of specifications and drawings of patents to the public libraries

For several years the PTO has been proceeding on a course of offering automated services to PDLs as if it had the authority which it does not indeed have

There are two examples First, the Office has supplied on line access to the CASSIS data base, and that stands for classification and search support information system

Second, the Office now has underway a compact disk pilot project supplying hardware and software to at least ten of the depositories We in the private sector do not see a plan by the PTO to properly balance the best of both worlds, beneficial Government automation with unfair competition with the private sector

Through a Freedom of Information Act request, we established that the PTO's CASSIS program in 1985 was costing three times as much as simply using pre-existing commercial on-line services for the same information

This program should be reconsidered and the compact disk program should undergo close scrutiny before funds are expended

Prior to further activities, we think two steps are needed First, revision of section 13 of the Patent Act Second, unambiguous instruction to the PTO to abide by the provisions of OMB circular A-130

This circular, entitled "The Management of Information Resources" is designed to promote economy in Government It calls for agencies to use existing information sources wherever possible, rather than building new duplicative systems The depository program stands in need of authorization and program oversight

Both kinds of automation, that is, on line computer service and compact disk raise fundamental questions about the size of Government and competition with the private sector

On the issue of copyright permissions, the Office indicated that it is considering the entry of privately published literature into its data bases However, the Office has yet to acknowledge that such entry will be done only with the permission of the copyright owners involved

A former PTO official told us that such entry might be regarded as fair use We believe that such entry would be a clear violation of the copyright act

Such a claim of fair use given the number of examiners, is well beyond the bounds of reasonableness When you consider planned public reference room use and possible PDL dissemination, as well, we think it is clear that the concept of fair use doesn't cover such wide-scale appropriation of private copyrighted works

This situation parallels the optical disk program at the Library of Congress In this case, the Library convened a blue ribbon advisory panel of librarians and publishers to set policy guidelines for the project

The press release is attached and was provided to the PTO It states that the Library will not enter copyrighted materials into its

data bases without permission This is the right policy, we think, and sets the example other agencies should follow

IIA seeks a written statement from the Commissioner that the PTO will not copy privately published materials without due permission We believe the legislative history should instruct the agency not to enter copyrighted works into its data bases without the permission of the copyright owners involved

We think it would be ironic and intolerable for the largest intellectual property agency in the Government to violate the intellectual property rights of the public

Finally, the question of fees for the use of the PTO's public search room We understand that the Office will propose through a public rule making to set a fee schedule allowing limited amounts of no-fee use, with fees to apply only above some ceiling of use We think the attempt to distinguish between occasional and heavy users of Government facilities strikes us as an acceptable balance of current fiscal restraints and appropriate public policy

We agree it makes more sense to deal with heavy usage through reasonable charges than it does through arbitrary rationing of, say, ten minutes per person Such a instructor would not be precedent-setting

Several years ago faced with a similar question in the National Agricultural Library, it began charging fees to heavy users

Mr Chairman, this concludes my prepared statement I am ready for any questions that you might have

[The statement of Mr Yung follows]



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NOT TO BE RELEASED UNTIL WEDNESDAY, JUNE 29, 10 AM

PATENT AND TRADEMARK OFFICE AUTHORIZATIONS

Testimony
of the
INFORMATION INDUSTRY ASSOCIATION

Before the
U.S HOUSE OF REPRESENTATIVES
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES,
AND THE ADMINISTRATION OF JUSTICE

June 29, 1988

SUMMARY

The Information Industry Association (IIA) represents over 700 companies, including a number who rely on the Patent and Trademark Office (PTO) to supply data on tape. IIA notes that the provision of data on tape by PTO enables private companies to meet the information needs of many customers In IIA's view, three crucial matters require Congress's attention in this authorization

Patent Depository Libraries

The statute creating the patent depository program (Section 13 of the Patent Act) is outdated and refers only to printed copies of patents However, PTO has proceeded to provide online computer and compact disk information services to depositories The statute needs to be revised, and the agency needs to follow the relevant Executive Branch policy guidance to avoid costly and unfair competition with the private sector.

Copyright Permissions

To aid searching for prior art by patent examiners, the PTO is considering adding privately published, copyrighted works to its databases Under existing law, such data entry can be done only with the permission of the copyright owner If the Commissioner will not give such written assurance, Congress should so instruct the agency in the legislative history

Public Search Room Fees

IIA supports the Administration's request for authority for the PTO to be able to charge some fees for automated services Otherwise, there may be no reasonable accommodation between the need for modern public reference service and current fiscal restraints

Good morning, Mr Chairman I am Gerald Yung, Vice President, Government Relations at Mead Data Central, the company which offers the LEXIS, NEXIS, and LEXPAT computer information services Today I am representing the Information Industry Association (IIA) The IIA is a trade association of over 700 companies pursuing the business opportunities associated with the creation, distribution, and use of information Many of our members, like my company, serve the markets for scientific, technical, legal, and marketing information These information needs cannot be fully served without providing access to patents and trademarks Thus, IIA members in the patent and trademark information business rely on the Patent and Trademark Office (PTO) to supply them data on magnetic tape for value-added use

At the outset, Mr Chairman, let me emphasize that this arrangement has resulted in major successes in information product development which other agencies would do well to emulate We see such arrangements as exemplifying a workable government-industry partnership, where the Government's unrivaled ability to collect information is matched with the private sector's strengths in dissemination By that, we mean that private companies are well suited, in a way that the Government is not, to add value through formatting, indexing, searching features, and merging government information with other sources of data This partnership -- Government issuing important official records, and the private sector making the information available in a timely, pertinent, and easy-to-use fashion for people in their various walks of life -- has helped to put the U S in the forefront of the global information industry

Within a year after patent and trademark tapes first became available from the PTO, several companies had begun using them to create new information products Those in the public who need patent or trademark information are hence much better served than people researching other subject areas where government agencies either do not have, or else do not release, data on tape Our desire is to continue to extend the government-industry partnership that has already started

As an example, Mead Data Central used this information to create a full-text database of all U S patents The resulting information system, LEXPAT, in operation since 1984, is used by virtually all U S patent attorneys It gives the researcher the ability to retrieve, in less than half a minute, all patents from 1975 to the present in which any chosen words appear These patents can then be reviewed on the subscriber's own terminal screen, the subscriber can either do printouts himself or order printouts from us, to be delivered overnight All that a paying subscriber needs to start up is a terminal, a modem, and a valid password

Such a partnership benefits the government and taxpayers by disseminating important information to the public without significant capital costs to the Government There is reliance on private risk capital rather than tax revenues Those seeking information are benefited by the intense private-sector competition to be the first with new databases or software features for efficient searching

We do, however, wish to identify three areas of concern

- First, the Office's patent depository library (PDL) program stands in need of Congressional attention. Proper authorization is necessary, and PTO activities should be examined in light of overall Executive information policies
- Second, the matter of entry of privately published, copyrighted

materials into any PTO databases or files needs to be clarified

- Third, the Administration's request for authority to charge some fees for reference room service should be given careful consideration

Let me take each point in turn

Patent Depository Libraries

Congress established the Patent Depository Library Program so that people around the country could have access to complete collections of patents and not have to travel to Washington The IIA has long recognized the usefulness of government-library partnership, just as government-industry partnership, and believes that the depositories do have a continuing useful role The IIA does not desire that depositories be left out of the Information Age

That said, Mr Chairman, we feel compelled to note that the Administration's bill is defective it fails to ask for the broadened authority the Office needs to carry out a modernized PDL program Here is the relevant language from current law

> The Commissioner may supply printed copies of specifications and drawings of patents to public libraries in the United States which shall maintain such copies for the use of the public (emphasis supplied) (35 USC 13)

For several years the Office has been proceeding on a course of offering automated services to PDLs as if it had the authority which it does not indeed have The willingness to proceed without the necessary authority does not inspire confidence that the PTO is comfortable with the examination which should be part of any publicly administered program There are two instances, both of concern to us. The Office has supplied online access to its CASSIS database (Classification and Search Support Information System)

to depositories Also, the Office now has underway a compact disk pilot project, supplying hardware and software to at least 10 depositories Perhaps even more urgent than the lack of authorization is the extent to which PTO has complied with government-wide information policy As with any pilot project, open evaluation and publicly announced results are indispensable to ultimate success and should be a precondition to program expansion To date, the results have not been publicly announced

Mr Chairman, the PTO should not proceed any farther along this path without careful study, and certainly not without proper authorization Our discussions with other agencies pursuing automation have shown us that no one has an easy formula to get the best of both worlds beneficial government automation without unfair competition with the private sector. At a minimum, however, two steps are needed now

- o First, revision of Section 13 of the Patent Act to include machine-readable media as well as paper copies,
- o Second, unambiguous instructions to the PTO to abide by the provisions of OMB Circular A-130

This Circular, titled The Management of Information Resources, is especially pertinent since some large users of patent data may want high-capacity data services beyond what the public search rooms or the depositories will be able to offer. To promote economy in government, the Circular calls for agencies to use existing information resources, wherever possible, rather than to build new systems

In this light, the PTO would have to reexamine carefully and perhaps overhaul the means by which it has provided automated services to depositories Through a Freedom of Information Act request, we established that the PTO's CASSIS program in 1985 was costing three times as much as simply using pre-existing commercial online services for the same

information We pointed this out in a 1985 letter to the PTO before A-130 came into effect Even after A-130 became effective at the end of 1985, however, the PTO continued its expensive in-house program The compact disk program should undergo similar scrutiny before operational funds are expended We believe there is still a question as to the need for in-house systems and product development to support expanded depository programs

Without any doubt, Mr Chairman, the depository program stands in need of both authorization and program oversight Both kinds of automation, online computer service and compact disk, raise fundamental questions for which there have not been good answers to date

Copyright Permissions

The Office has indicated that it is considering the entry of privately published literature into its databases The IIA recognizes that providing such easy access to examiners may well facilitate better examinations After all, better examining is and must be the primary goal of the PTO's automation efforts

We are most disturbed, however, that the Office has yet to acknowledge that such entry will be done only with the permission of the copyright owners involved When we were shown the scanning machinery that would be used for such data entry, a former official told us that such data entry might be regarded as a fair use We submit that such data entry would be a clear violation of the Copyright Act Such a claim of fair use, given the number of examiners, is well beyond the bounds of reasonableness When you consider planned public reference room use and possible PDL dissemination, it becomes clear the the concept of fair use does not apply to such wide-scale appropriation of private, copyrighted works

The IIA wrote to Commissioner Quigg on this subject last fall A copy of our comments is attached. Following up, we met with several of his top

staff on January 27 and raised the issue again They told us that the PTO was studying the matter, and that is the last that we have heard.

This situation closely parallels the optical disk project at the Library of Congress The Library convened a blue-ribbon advisory panel of librarians and publishers to set policy guidelines for the project, which the Library then adopted The press release is attached and was provided to the PTO Clearly stated is that the Library will not enter copyrighted materials into its databases without permission This is the right policy and sets the example all other agencies should follow

As copyright owners, we would be reassured by a written statement from the Commissioner that the PTO will not copy privately published materials without due permiasion. If no such statement is forthcoming, however, we believe that the legislative history must instruct the agency not to enter copyrighted works into its databases without the permissions of the copyright owners involved. It would be most ironic for the largest intellectual property agency in the government to violate valid intellectual property rights

Public Search Room Fees

Finally, let us touch briefly on the question of fees for use of the PTO's public search room Our understanding is that the Office would propose, through a public rulemaking, to aet a fee schedule allowing limited amounts of no-fee use, with feea to apply only above some ceiling The attempt to distinguish between occasional and heavy users of government facilities strikes ua as an acceptable accommodation between public reference and current fiscal restraints Surely it makes more aense to deal with heavy usage through reasonable charges than it dòea through arbitrary rationing of, say, 10 minutes per person

Such a atructure would not be precedent-setting. Indeed, aeveral years

ago, faced with similar circumstances, the National Agricultural Library decided to charge fees to heavy users

Mr Chairman, this concludes my prepared statement, and I am ready for any questions that you might have

Attachments (2)

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September 21, 1987

Mr. Donald J. Quigg
Assistant Secretary and Commissioner of Patents and Trademarks
U.S. Patent and Trademark Office
Washington, DC 20231

Dear Commissioner Quigg

The Information Industry Association (IIA) is pleased to respond to the Office's request for comments on the Proposed Amendment of Electronic Patent Data Dissemination Policies and Guidelines, 52 Federal Register 31442-44 (August 20, 1987). The IIA is a trade association representing over 525 companies actively pursuing the business opportunities associated with the creation, distribution, and use of information.

At the outset we would like to register our awareness of the especial importance of this proceeding. To the best of our knowledge, the PTO is the first Executive Branch agency to issue guidelines under OMB Circular A-130, Information Resources Management. That circular, which superseded several earlier circulars, culminated years of work and embodies language and concepts from several federal information laws. Clearly, other agencies will be watching to see how a major agency like the PTO applies the Circular in practice.

We now address each major subject in turn.

Public Search Rooms at the PTO

The IIA recognizes the difficult situation created for the PTO by the elimination of any fees for use of the public search rooms (Public Law 99-607). In our view, such a flat restriction was not necessary. We have never found persuasive the extreme view of "constructive notice", taken by some, that full-time practitioners, who readily charge fees for their services, deserve an unlimited 100% tax subsidy for online searches. Such practitioners simply enjoy no special claim on the pockets of taxpayers.

As we suggested in Senate testimony on PTO

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authorizations in 1985, one way to satisfy the constructive notice requirement and to meet the needs of small inventors would be to adopt an innovative approach like that of the National Agricultural Library The Library has set a certain service level of no charge to any customer, moderate and heavy users who exceed that limit are assessed fees. The IIA continues to believe that similar policy should be considered for the PTO's public search rooms in Arlington We recognize that statutory amendment would be required to carry out this sort of balanced plan and are ready to support any request you might make to Congress for such authorization

The PTO continues to plan to offer data from certain commercial sources in the public search rooms. For the most part, the rights in these databases belong to IIA members. We are naturally concerned that the companies who have entered into agreements with the Office, at its instigation, continue to receive fair treatment from the government, the largest and richest economic actor in society. If there is to be any change in the original conditions upon which agreements were predicated, we take it as axiomatic that the companies should receive full compensation accordingly. The same would hold for any change in bulk data tape availability.

It seems necessary to note that policies for the public search rooms must be taken to apply to the Office's Arlington, Virginia premises only. The legislative history of Public Law 99-607 makes an unmistakable distinction between the public search rooms and any off-site location, which would include the Patent Depository Libraries.

> ...(S)ection 4 prohibits imposing fees for access to records only at the search rooms and libraries located at the Patent and Trademark Office. The Committee did not fully examine the question of whether user fees should be charged for remote electronic access The Office will not have the capability for some years to make its records availale at any off-site locations (emphasis supplied) (Senate Report 99-305, 99th congress, 2d Session, p. 17)

That the PDL program is moving perhaps a bit faster than that language suggested in no way changes the clear policy distinction that was drawn

Patent Depository Libraries

The IIA is disturbed that the specific, pertinent legal questions we raised in 1985 about the Office's authority to engage in an automation effort for PDLs remain unanswered. To quote from our August 23, 1985 letter to Dr. J. Howard Bryant, responding to the PTO's notice at 49 Federal Register 24585 (June 14, 1984) (enclosed)

> It should be clearly noted that the PDLs have been established administratively by the PTO and not made mandatory by existing statute Moreover, the statute referred to in the guidelines, 35 U S.C 13, states 'The Commissioner may supply printed copies (emphasis added) of specifications and drawings of patents to public libraries in the United States which shall maintain such copies for the use of the public ..' This statutory language clearly does not contemplate the provision of electronic search and retrieval services to the PDLs... The IIA believes that providing electronic information

services to locations outside the public search facilities should only occur where clearly required by statute and after careful consideration of the costs and benefits associated with providing such services (p. 2)

Beyond any doubt, the question of the PTO's legal authority to conduct any automation project in PDLs, either on a limited testing basis or as a permanent modification to past PDL operation, urgently requires a full public hearing and specific statutory authorization. The matter must be addressed and resolved immediately.

The IIA may be reluctant, however, to support a request to Congress from the PTO for the needed authority here, in light of the Office's failure to conduct the meaningful cost-benefit comparisons of alternatives of which we spoke. Again, to cite our 1985 letter to Dr. Bryant, we demonstrated that, at least at that time, reliance on private commercial vendors would have been much more efficient than the Office's in-house Classification and Search Support Information System (CASSIS) program

> According to the information provided by the PTO in response to an FOIA request, at least $467,000 was spent in FY 1984 alone to develop and operate CASSIS Our analysis of these costs, which we believe are significantly understated, indicates that the telecommunications costs associated with providing CASSIS access to the PDLs are twice those that would be incurred in a commercial system More importantly, the PDLs could have acquired the same information from the private sector for $166,000, rather than the $467,000 it actually cost The existence of CASSIS has substantially distorted the market inasmuch as PTO, and not the PDLs using the system, pays the cost of these services. (p. 3)

Mr Commissioner, we cannot but note your reference to the PDL Program in your recent annual address to the American Bar Association "One of the more successful features of our PDL Program is .CASSIS. This system is offered to all PDLs as a means for retrieving current classification information It has, in fact, been so successful that we had to limit access to stay within our budget " Your remarks can only be understood as showing a current intention for the PTO to offer CASSIS to the maximum extent that Congress provides funds, the cited problems notwithstanding However, the program growth that has been achieved with a zero-price service provides no assurance that the value to a small number of users exceeds the significant cost to all taxpayers. One could not expect anything but that a gratis offering would be popular

We appreciate that the PTO is now conducting a test project using compact disks-read only memory (CD-ROMs) with a subset of PDLs to see whether this technology can provide advanced patent searching capability at reduced costs compared to the CASSIS program We agree that CD-ROM is a promising technology and that this may well be an appropriate application of it, we will be anxious to see the results of this test project and to participate in the public analysis of it at its conclusion

As the test is still underway, final conclusions other than the legal one we have already noted would seem premature Nonetheless, several observations deserve emphasis now The purpose of the PDL program, as we

understand it, is to provide access to U S patents at selected locations around the United States. We believe that this basic purpose should be kept constantly in mind as the reference point for all discussions about the future of PDLs The PDL program, as now administered, is neither well suited to this purpose nor consistent with the PTO's stated aim -- and the clear and strong guidance of A-130 -- that government not compete, where possible, with the private sector

PDLs receive only narrow, limited aid from the PTO that which the PTO issues or provides directly Under the current program structure, that is all they can receive Meanwhile, if they want to supplement what they get from the PTO with value-added products or services from private vendors, they have to pay out of pocket, just like anybody else Rather than having the PTO building new systems or products in house, we think a much better approach might be for Congress to take the same money and put it in the hands of the recipient libraries to spend as they wish for any relevant commercial electronic services or products to aid their patrons in accessing patent information. If, for any reason, there were legitimate requirements not being met by the private sector, then the PDLs could use these funds for direct connections to the PTO to fill the gap Either way, the PDLs would be making active decisions about which services met their patrons' needs and were worth paying for, rather being passive recipients of in-kind government support.

This plan would entail authorization and regular oversight. But as we have already noted, such revision is necessary to accomplish automation of the PDLs, unless they are entirely to finance automation themselves. The PDL program operates as an in-kind matching grant program, where the library-grantees accept public access and service obligations in return for the materials provided Its structure appears poorly suited to the twin needs of effective information dissemination to users around the country and sustaining private initiative funded through risk capital rather than taxes. We would be pleased to pursue this idea further with the Office

Commercial Distribution

The IIA heartily welcomes the new Guideline III, paragraph C, calling for marginal cost provision of bulk data developed by the PTO We believe that this is the only sound and supportable result under FOIA policy, especially in light of the excellent report of the House Government Operations Subcommittee on Government Information, Justice, and Agriculture ("Electronic Collection and Dissemination of Information by Federal Agencies. A Policy Overview," House Report 99-560, April 23, 1986)

However, we call for clarification of the phrase "developed by the PTO." To which databases does and does not this phrase pertain? Two points demand clarification. First, will the Office consider as "developed" by it databases incorporating elements obtained by international exchange agreements or procured from private firms? Second, will the new policy apply uniformly to patent and trademark contents? The substitution of the new general title, "Electronic Data Dissemination Policies and Guidelines," would suggest so But the internal drafting is not consistent on this point. Remaining references to the Automated Patent System lead to the conclusion that paragraphs so referenced apply only to it and not to

trademark data as well. We seek clarification that the new policy will indeed apply uniformly to patent and trademark data

Likewise, the language of paragraph D raises far more questions than it answers

> Normally, arrangements with commercial data base vendors will be nonexclusive. Bulk resale of PTO data by commercial data base vendors will be permitted subject to the terms of each bulk data sales agreement.

What does "normally" mean? What are the abnormal conditions under which nonexclusivity would not apply? Furthermore, what are to be the terms of bulk data sales agreements to which vendors will be subject? What authority does the PTO purport to have to enforce any limitations on resale of tapes containing data from unrestriced public records, aside from abiding by a valid agreement reached with a rights-holding private vendor? Without answers to these questions, interpretation of the intent or effect of this paragraph is impossible.

Finally, the import of the wording of Guideline V is unclear. This Guideline introduces the new term "U S. patent and trademark data products." What are these products? Are they at all different from the materials referenced elsewhere in the new policy? There is no way to tell from the text of the Notice itself

PTO Inputting of Private Data

There is one further aspect of the PTO's automation efforts on which the IIA finds it necessary to comment, although not addressed in the Notice. The tour of the Group 220 testbed, graciously provided last year for the IIA's Task Force of Patent and Trademark Information, demonstrated that the Office is optically scanning privately published nonpatent literature along with patents themselves. Without doubt, almost all of the private material is subject to copyright protection.

At least four different sets of circumstances could arise regarding use of such privately published material We observe that, in all of them, the Office has an unavoidable duty to gain the necessary permissions from the copyright holders

> o The PTO restricts use to just PTO staff In this case, the PTO would be functioning like many Fortune 500 corporations. An increasing number of such corporations, like Exxon, have acknowledged their responsiblity to get licenses for such use from the Copyright Clearance Center There is no doctrine in copyright law, and never has been, that federal government use per se is somehow excused.
>
> o Use extends to the public search rooms The Library of Congress has examined precisely the same question with regard to its optical disk pilot project The Library assembled a blue-ribbon advisory panel of publishers and librarians to draw up policy guidelines for the project, especially as regards copyright and competition with the private sector Notably, the panel agreed that securing permissions from the private publishers whose material was scanned was indeed necessary, and

the Library has done so (We might note, in passing, that the panel saw the proper scope for the Library's clientele as Congress and the Judiciary on Capitol Hill, with the rest of the country left open for private value-added development) We have enclosed the Library's press release announcing the guidelines.

o The PDLs can access the materials as well PDL access raises an even more serious problem of commercial competition with the copyright owner

o The PTO produces some as yet undefined data "products" as mentioned in Guideline V Such products raise the unsettling possibility that there is not even any defined boundary beyond which commercial competition with the copyright owner will not go.

We do not yet know of any affirmative steps taken by the Office to gain the needed permissions but would be most pleased to learn of any. Mr. Commissioner, the apparent violation of valid intellectual property rights by the leading intellectual property agency of the Federal Government is most ironic. The PTO has conducted this scanning operation for some months without properly clarifying the use to which the scanned material is put and without publicly acknowledging its responsibility to obey the law. We can only assume, at a minimum, that the scanned material will be available, just like patents themselves, in the Automated Patent System. There is simply no credible claim to be made that such use is fair use requiring no permission or payment.

To be sure, not all of the non-PTO material being scanned into the APS comes from private publishers. Unless we are mistaken, data from JAPIO and INPADOC will be included as well The Office should be aware that online U S. vendors have been making agreements will these foreign official data sources for remote access service in the U.S. Hence, for the PTO to be offering online access JAPIO and INPADOC outside the public search rooms would constitute another dimension of unacceptable government competition with the private sector.

We sincerely hope that the Office will promptly adopt and implement that same sort of policy as has the Library of Congress From the standpoint of responsible intellectual property administration, nothing else will suffice

The IIA is ready to assist you and your staff, at your convenience, in making the data dissemination policy final.

Yours truly,

Kenneth B Allen

KENNETH B ALLEN
Senior Vice President
Government Relations

Enclosures (2)



NEWS from THE LIBRARY OF CONGRESS
INFORMATION OFFICE (202) 287-5108
Washington, D.C. 20540

Press Inquiries Craig D'Ooge
(202) 287-5108

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LIBRARY OF CONGRESS ISSUES POLICY STATEMENT
ON ITS USE OF PRINT MATERIALS IN OPTICAL DISK FORMAT

An advisory committee, appointed to explore issues of copyright policy raised by the Library of Congress Optical Disk Program--and representing the rights of owners and the needs of users--has issued a statement of guidelines and principles to be followed by the Library

In 1982 the Library of Congress embarked on a program involving optical disk technology for preserving and improving access to certain materials in its vast collections The Library had to address the issue of using copyrighted materials, and to this end it sought permission from a number of journal publishers to use their material during the experimental period on a royalty-free basis In return the Library promised these 70 publishers certain information about the use of material in the system

Publishers were interested in the system to be developed and they expressed a variety of concerns including possible loss of subscriptions, lack of royalty payments, the kind and use of information collected about the project, and the use of the disks themselves To address these concerns and to explore the issue of a balanced copyright policy that represented the rights of owners and the needs of users, The Deputy Librarian, William J Welsh, appointed an Advisory Committee composed of publishers, librarians, and representatives of trade associations

The Advisory Committee developed "Guidelines and Principles" for current print materials over a period of many months On July 28, these guidelines were presented to The Deputy Librarian by Robert Wedgeworth, dean of the School of Library Science at Columbia University, chair of the Library Subcommittee, and Kurt D Steele, senior vice president and general counsel of Standard and Poor's, chair of the Publisher Subcommittee

These guidelines and principles represent a significant achievement and should serve as a model for the future

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Library of Congress Optical Disk Program
Guidelines and Principles For Print Materials

The following guidelines and principles relating to print materials captured in optical disk format for storage and distribution have been developed by the Library of Congress Advisory Committee on the Optical Disk Program They reflect the conclusions of the committee as of July 1986 Other issues, such as problems posed by certain older materials and the framework of royalty/licensing arrangements, will be addressed in subsequent actions by the committee The Library of Congress has endorsed these guidelines and principles and will follow them in the pilot and operational phases of the Optical Disk Program and as a basis for continuing explorations in the use of optical disk technology, to the extent that they do not conflict with provisions of law or established regulations

(1) Optical disk technology offers considerable promise to solve this country's problems regarding the preservation of print materials Preservation is inseparable from the requirements of service, and optical disk technology opens new opportunities for dissemination Since there are currently no adequate private sector mechanisms to ensure comprehensive preservation of print materials acquired by the Library, public investment in a preservation system is justifiable in order to ensure the basic availability of print materials

(2) The Library should encourage the private sector to apply optical disk technology in ways which will aid the Library's preservation and dissemination of print materials As the private sector applies this technology, the Library should use private sector sources to the extent practicable to obtain disks and electronic files of published print materials

(3) The Library should seek the advice of, and cooperate with, the private sector and relevant standards organizations in connection with the Optical Disk Program

(4) The Library's selection of print materials for inclusion in the post-pilot operations system should be as comprehensive as is practical Appropriate selection criteria should be developed by the Library which reflect the Library's preservation role and traditional selection criteria, including demand, use, citation frequency, research potential, and condition of library materials There may be different emphases in the selection criteria for older as distinct from current materials

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(5) For the post-pilot operating system, the terms and conditions for accessing copyrighted print materials on the Library's optical disk system should not jeopardize a fair return to copyright owners on their investment or reasonable user access to such materials The Library has properly accepted the principle that these copyrighted materials should not be stored on a disk or disseminated from disks by the Library without the consent of the copyright owner in a license agreement between the Library and that owner Royalty arrangements should be proposed by the copyright owner and these should be administratively feasible These arrangements should provide for subsidized or royalty-free public access to print materials on the disk system at the Library's facilities for browsing, similar to that provided by libraries and bookstores To the degree practical, existing royalty collection mechanisms, such as the Copyright Clearance Center, should be used to collect royalties

(6) The Library's utilization of optical disk technology to meet its own local requirements for dissemination of print materials within the Library and to Congressional offices and the Supreme Court is an appropriate use of that technology which should be exploited However, dissemination to other locations in disk form or by electronic transmission from disks of print materials originally captured in disk format by the Library, should be made by private-sector commercial and not-for-profit organizations which can disseminate print materials in innovative and cost-effective ways to meet the needs of other libraries and users The Library should consider disseminating print materials in disk form, or by electronic transmission from disks to other locations, only when the private sector, after an adequate opportunity, does not choose to disseminate certain of the print materials available from the Library in disk form The Library should make its disks available to such private sector organizations for an appropriate manufacturing fee, subject to the approval of the copyright owners This approach will permit the Library to justify further its expense and effort in the creation of disks for itself and to play an integral part in making print materials available to other libraries and users in optical disk form

In addition to William J Welsh, convenor, and Joseph W Price (ex officio), project director, Optical Disk Pilot Program, members of the Optical Disk Advisory Committee are Library Subcommittee-- Robert Wedgeworth (chair),

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Columbia University, James Govan, University of North Carolina, Jay K Lucker, Massachusetts Institute of Technology, Susan K Martin, Johns Hopkins University, Peter J Paulson, formerly of the New York State Library, Gary Strong California State Library, John C Broderick, Library of Congress liaison, Publisher Subcommittee-- Kurt D Steele (chair), Standard and Poor's Herbert S Bailey, Princeton University Press Frederick Bowes, New England Journal of Medicine David Minton, Loomis, Owen, Fellman & Howe for the Magazine Publishers Association, E Gabriel Perle of Proskauer, Rose, Goetz & Mendelsohn, Carol Risher, Association of American Publishers John Fox Sullivan, National Journal, Peter F Urbach, Reed Telepublishing and Marybeth Peters Library of Congress liaison

Questions about these guidelines can be directed to Marybeth Peters, Office of the Register of Copyrights, Library of Congress, Washington, DC 20540, telephone (202) 287-8350

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PR 86-122
9-11-86

Mr KASTENMEIER Thank you, Mr Yung

We don't agree on all this, but I think the general thrust on many issues One, to the extent that you, and not all witnesses address the same thing, but the first two witnesses would be interested in higher quality patents and interested in also the 1889 or more expeditious processing of applications

At the same time, noting that fees should not be increased, perhaps, even that existing fee schedules are excessive and then a discussion of the automation system and so forth

Are we able to achieve all these things simultaneously?

Let me ask Mr DeGrandi whether he agrees with the fact or with the Commissioner's assertion that the offsetting fee collections are estimated at 167 million, more or less, and the appropriation request for budget authority is 117 million This would suggest more or less a total expenditure of 284 million

Forty-one percent being the appropriation of public funds Fifty-nine percent apparently deriving from fee collections Yet, as I heard you, Mr DeGrandi, you suggest that there are problems about overcharging in terms of fees or services

How would you reconcile that?

Mr DEGRANDI We look at the fees that are collected from the users and then how these fees are used by the Office, we believe that a lot of the user fees are being used in areas where appropriated fees should be used Appropriated fees, rather than these user fees that are paid by the applicants, should be used

In other words, the applicant should be paying for his costs in filing the application and having it examined in the Patent Office and having the patent issue He pays 100 percent of those costs Then from his fees, the amount of money he pays, a portion should not be used by the PTO to pay other expenses of the PTO, for example, running the Solicitor's Office or the Public Search Room or running the Commissioner's Office

Mr KASTENMEIER Perhaps I should have first asked, do you challenge the Commissioner's figures as he has given them to us? Which would indicate that 41 percent is public money to support the total Do you have any problem or is the ratio wrong?

Is 41 percent too small, Mr Blommer

Mr BLOMMER Let me address this, Mr Chairman I have been following this, as you know, for many years This subcommittee in at least three reports in 1980 and 1982 and 1985 set down what I considered to be a fair and reasonable user fee policy

Repeatedly you have delineated services provided by the Office that should be paid for by users, 100 percent of the cost, and you have clearly delineated parts of the Patent Office budget that are of general nature that should be supported by appropriations

The difficulty is that the Patent and Trademark Office doesn't follow the policy that you have set

Their policy is to charge the maximum in user fees that they can They do not look at the legislative history of the fee legislation, rather, they look only at the statute

In 1982, the subcommittee decided, for example, that the total cost of responding to patent applicants by examining and issuing their patents, would be paid for in user fees, 50 percent in processing fees paid during the time the case is prosecuted, and 50 percent

in maintenance fees The bottom line was that 100 percent of the costs would be paid by the users who required the services

The Patent Office gave you in 1982 the starting point, section 41A and B, of the statute set the basic filing, issue fees, and maintenance Those fees were set too high Considerably to high in my opinion, although I don't have the precise numbers

In 1985, the time came when the Patent Office could adjust the fees to follow the direction of this subcommittee and to be sure, for example, that the processing fees collected equal 50 percent approximately of the cost of providing the service

Instead of doing that, which would require the fees to have been not increased to the maximum or maybe not increased at all, they raised fees to the maximum Now, in my opinion, what is going to happen is what happened to the trademark operation As the Commissioner said this morning, the policy you set is for the fees ultimately to support about 85 percent of the Office cost In my view because the fees collected are continually too high, we are only beginning to get the maintenance fees in, by 1995 the fee income is going to be more than it costs to run the Patent Office instead of 85 percent of it

So I think that even though you have asked for it, accountability is not there I think the Patent Office just disagrees with your policy as set forth in the legislative history

Mr KASTENMEIER Let me move to a different area I don't know the extent to which your Groups individually represent or have among them biotechnology applicants, but you are aware that for those types of applications, there is a considerable delay and the backlog is much more extreme than general applications

What recommendations, perhaps, other than those discussed or even with reference to those which were discussed, namely, personnel and possibly more costs with respect to personnel, and also some change in procedure, what is your comment or what will your suggestions be about that particular problem?

Mr DeGrandi

Mr DEGRANDI There is a problem in the biotechnology area right now at the PTO because of this backlog As we heard this morning, the Office has been aware of the problem and is taking steps to alleviate the problem

It is difficult to get out there and hire people experienced in biotechnology, people that have master's degrees and Ph D s and bring them into the Patent and Trademark Office Once you bring them in, you have to train them and that takes 6 months to a year before the person can do a proper examination of a patent application

He stays in the Office 2 years or 3 years and then he is lured to the outside by private firms or by industry because he is valuable now that he has had that particular training There are a number of things that can be done

We heard the Commissioner say they are going to hire 28 new examiners by the end of this calendar year and 28 new examiners next year Hiring more examiners is one way of trying to bring the backlog down

Of course, on the other side you are going to have the same factors that exist today, that they may be enticed to leave the Office

by higher salaries or more money or more benefits Increasing the number of examiners is one way of doing it Congressman Moorhead had another suggestion, that perhaps in view of the fact that these people, when they are hired, are going to be subjected to this intensive training, that perhaps they can be availed upon to sign some kind of a contract with the PTO where they agree to stay 3 to 5 years before they leave, in view of the fact that the Office is investing money in their education to become good examiners

You are always going to run the risk that they are going to be leaving and you are going to have to hire new examiners constantly Fifteen or twenty years ago this problem existed in the electronics industry They were leaving the Office and there was a shortage and the Office was scrambling around to fill the vacancies and try to catch up on the backlog in that field at that time

Mr KASTENMEIER Mr Banner

Mr BANNER Mr Chairman, this problem of the determination of applications for that particular technology, of course, is not limited to the United States This is—I was speaking with the head of the European Patent Office not too long ago They, of course, are experiencing exactly the same problem People who are highly trained in a new and emerging technology of the times can just find much higher paying jobs in industry That is the way our society works and there is nothing wrong with it

I think one of the things that this subcommittee might consider is seeing if there isn't some kind of a supplement we can work into specialized areas of technology so that somebody could come into the Patent Office and be reimbursed at a higher level and also Mr Moorhead's suggestion that maybe we could have some kind of tension system that might be useful

I think in the final analysis, the problem is going to be one of getting the right people there to do the job The only way we know how to do it in an effective way really is to pay them more money

Mr KASTENMEIER Mr Yung

Mr YUNG Mr Chairman, on the issue of speeding up patent applications, I think one way the Patent Office could speed that up is to concentrate more on its basic function of examining and issuing functions and relying more heavily on the private sector, either subcontractors or deferring to them to get information on patent information, trademark information, out to the PDLs to automate other programs, going out to the scores of PDL libraries and so forth

The Patent Office has a tremendous amount of work to do with the grade increase in patents Many coming from outside of the U S

We would like to see them concentrate on their basic mission and let the private sector help in doing some of the peripheral functions in getting information out to the public

Mr KASTENMEIER Mr Banner, your discussion of the necessity to achieve a higher quality of patent examination, I take it that if the choice were reaching the goal of 18 month pendency or higher quality of patent examination, you would operate for the latter, would you not?

Mr BANNER Without question, Mr Chairman

Mr KASTENMEIER I wanted to ask you while I had an opportunity before I yield to my colleague, just a couple other general things, and there are many things we could discuss this morning, what would your advice to the President be with the pending process patent provisions of the trade bill, isolating that alone and looking at the process patents section?

I asked that of the Commissioner Evaluating it, what would your recommendations be, Mr Banner?

Mr BANNER We were sorely disappointed in the way that process patent provision developed It really today has no real relationship to what we had hoped to obtain That is to say, the so-called level playing field of our competitors It is totally different, and it is our view that we should just forget about the whole thing

It is more trouble than it is worth

Mr KASTENMEIER Would you agree, Mr DeGrandi?

Mr DEGRANDI I agree wholeheartedly with that, yes

Mr KASTENMEIER Mr Yung, your testimony suggests for the PTO to charge user fees for access to certain public search room features In this respect, why should the PTO be able to compete with private attorneys who might sell the same information to clients?

Mr YUNG We don't think that it is really a matter of competition with anyone, if the use is limited Traditionally, the PTO search room could be used by the public who could physically go into it As you go into an electronic age, we are seeking to hold an analogy to that so there still would be access by the public, by the small inventor and so forth

Our distinction is that when larger users, for example, a professional patent searcher who does this for clients, uses a significant amount of Government facilities, and is in the Office day-in and day-out, we think then there is a distinction as between the casual use, occasional use by inventors and on the other hand heavy use of Government facilities

So we believe in this case that free use in a limited sense is consistent with the ability to get small quantities of Government certain circulars and other things without having to pay for them

Mr KASTENMEIER Following up on that, you do indicate that the PTO should be obtaining copyright permissions?

Mr YUNG Yes

Mr KASTENMEIER Or inclusion in its data base of copyright materials Is it your assumption that the permissions would be pro forma, without compensation by and large

Mr YUNG I can't speak for all the publishers I would think that if the use is entirely by the examiners themselves of various materials on patents and so forth that the fee there would be quite nominal, if anything

If, on the other hand, the Patent Office, and we think this would be a mistake, takes it upon itself to have the mission to provide the maximum amount of use of its computer systems to the pubic, then I think it would be fair for the publishers of those materials who publish them and are protected by copyrights and seek to make money from the activity, to expect compensation for the Government's use of their work

We would hope that the Patent Office would not expand its mission that broadly

Mr KASTENMEIER On a different subject briefly, and I asked the same question of the Commissioner Mr Banner, and Mr DiGrandi, what qualifications should the new deputy commissioner of the PTO possess?

Mr BANNER I think that the—as we know, the deputy commissioner is the commissioner when the real commissioner is out of the country or if he is ill or not there for some reason He is the commissioner

He is the commissioner of Patents and Trademarks for the United States of America The deputy commissioner, therefore, in my view, sir, should have the same qualifications as the commissioner should have He should be a person, he or she should be a person trained in the law and admitted to practice in the Patent Office

A person having had the—hopefully having had some experience in running some organizations, if that is possible I don't know that that is essential But that would be a high priority matter

I think it would be a grave error to have someone in that slot who is not qualified, as I have indicated, because that person does a great many things even when the commissioner is there that require an understanding of the law, of the system, how the Office works

I was very blessed, I think, in having Mr Lutrelle Parker as my deputy commissioner when I was commissioner, a man of great experience in the Office and the law, who understood what the policies of the patent system were, the policies of the trademark registration system, what we were trying to do, how to do it, one could depend on him because he had that background

The fact of the matter is that if you are going to be doing brain surgery, you should have a brain surgeon You don't go out on the street and pick up somebody and say, here, get to work, not in my view

Mr DEGRANDI We agree here again The person who is Deputy Commissioner is the acting Commissioner when the Commissioner is out of the country That person has to be very knowledgeable in the day-to-day operations of the PTO He has to understand patent law and trademark law

The more experience that person has in either of those two fields, the more he is going to bring to the position The Deputy Commissioner is also responsible for the supervision of the Trademark Trial and Appeal Board, and the Board of Patent Appeals and Interferences He has to know exactly what is going on in the PTO, what are the functions and how are these functions being achieved

For example, we heard the Commissioner this morning saying that in two days he is going to be meeting with the Commissioner of the Japanese Patent Office

I am sure a Deputy Commissioner would be sitting in on those meetings If he doesn't know anything about our patent system or our trademark system, what can he add to these meetings?

The Commissioner made one comment and Mr Banner has repeated it, saying that to the person that is a Deputy Commissioner

should be admitted to practice before the Patent and Trademark Office Actually, trademark attorneys do not have to be admitted to practice before the Office

They don't have to take an examination We had a very excellent Commissioner of Patents and Trademarks not too long ago, Sidney Diamond, who was a noted trademark lawyer and was a very, very good Commissioner

He was not admitted to practice before the PTO, but they have to have a good fundamental background in patents and trademarks On the patent side, he was Chairman of the Section of Trademark, Patent, and Copyright Law of the American Bar Association

Mr KASTENMEIER Mr Yung

Mr YUNG I can't add anything

Mr BANNER I would like to add something about Mr Diamond because I recruited him to be my Assistant Commissioner One of the assets that I saw in Sidney Diamond, in addition to his many other assets, and why he was a specialist primarily in the trademark and copyright side, he had a great deal of interface through the years with the patent system, what it did, how it worked, he knew those things

It was a very big plus in my view

Mr KASTENMEIER The gentleman from North Carolina

Mr COBLE Thank you, Mr Chairman

I appreciate your response about the Deputy Commissioner The Commissioner when he answered that question, and I believe he said, I think accurately, he said the same sort of credentials that I brought to the Office, I think, Mr Banner, that might well apply to another former Commissioner who sits before us now

I appreciate your candor in responding to that I had a couple brief questions, Mr DeGrandi

The question I put to the Commissioner concerning the surplus, according to my notes, he responded that the surplus in the trademark account was seven million Now, what was the 12 million figure that you tendered?

Mr BLOMMER Mr Coble, we have a great deal of difficulty getting information from the Patent Office When we get it, it is in a form that is hard for us to decipher Our best guess was that there was $12 million in excess There has been an excess 6 years in a row but apparently it is now $7 million because they have taken part of the excess each year and used it to pay for staff pay increases So they have used some of the excess and are left with $7 million

Mr COBLE Mr Blommer, was the 12 million a total of the Patent and Trademark or just the Trademark?

Mr BLOMMER Just Trademark

Mr COBLE I should have asked the Commissioner about the amount as to the patent account I failed to do that Perhaps we can follow up on that and maybe help you to get some of that information

Mr DeGrandi, you mentioned about the free use of the search system in Japan, and Mr Yung, I think you may have touched on the search system charge, as well I am aware that convincing ar-

guments can be submitted for and against imposing a charge, limited or otherwise, for a search system

Mr DeGrandi, the Commissioner in response to my question about what sort of comparable fee was charged by our Office, as opposed to foreign Offices, his answer was that obviously a great disparity, implying that we charge a lesser amount

Now, if Japan does, in fact, impose a more severe, for want of a better word, charge for the fee they collect, that might be one reason why they could offer the free search more readily I would like to hear what you all have to say about that

Mr BLOMMER Well, Mr Coble, I think the truth is that the fees in Japan are considerably less than our fees They have considerably less strength of their staff But let me say, and it pains me to say this, the Japanese are doing roughly what your Patent Office is doing in terms of automating a large search file for patent purposes and they are doing it much more efficiently and they are approaching it in a much more common sense way

The common sense way is that they are using the input and the advice of the public, they are involving the public at the early stages so the public can help with the planning

After all, the public is the ultimate user of this system They are not charging the public They don't have fees for the dissemination of technical information in Japan The Japanese Government is strongly in favor of disseminating technical information in Japan

The whole automation system in Japan is designed to move technical information, including United States technical information, and they are getting our entire patent file, move it out into industry That is the whole purpose of automation in Japan

They have said that for many years Whereas, in our country, the whole thrust and purpose is to give the examiners better search tools In other words, those 1,500 examiners are the recipients of our search file

Now, you heard the Commissioner say that in 4 or 5 years when the system is deployed through the Patent Office, then the public will get the benefit of it So I think, and as I say, I am sorry to say it, I think that somebody has got it backwards and I am afraid it is us

Mr COBLE Thank you, gentlemen Good to have had you all here Thank you, Mr Chairman

Mr KASTENMEIER I join my colleague in expressing the appreciation of the subcommittee, to you, Mr Banner, to you, Mr DeGrandi and Mr Yung and Mr Blommer, as well, for your contributions

We may before the season is over have a need to be in touch with you further on this bill, the authorization bill and on other matters relating to the patent and trademarks

Thank you This concludes the hearing this morning The committee stands adjourned

[Whereupon, at 12 noon, the subcommittee adjourned, to reconvene subject to the call of the Chair]

APPENDIX

ONE HUNDREDTH CONGRESS

PETER W RODINO JR NEW JERSEY CHAIRMAN

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June 21, 1988

Mr William Verity
Secretary
Department of Commerce
14th & Constitution Avenue, N W
Washington, DC 20230

Dear Mr Secretary

The purpose to this letter is to urge you, directly and personally, to intervene and correct a serious problem in the Patent and Trademark Office (PTO) concerning biotechnology This $8 billion dollar American dominated industry essentially did not exist until 1980 In the last eight years the availability of meaningful patent protection has been a key ingredient in generating the venture capital necessary to support the industry's research and development activities

The presence of strong intellectual property protection has contributed to allowing the United States biotechnology industry to lead our worldwide competitors Unfortunately, the PTO failure to aggressively respond to the backlog of biotechnology patent applications now threatens this lead Strong laws and advanced research will be unavailing if the PTO's continues to fumble this issue

In the past four years, I -- and the subcommittee I chair-- have been able to make great strides in assisting the biotechnology industry through legislation I successfully amended the Drug Price Competition/Patent Term Restoration Act (Public Law 98-417) to permit the extension of process patents for biotechnology products In the current Congress, I have been responsible for enhancing the rights of process patent owners by making illegal off-shore piracy (Sections 9001-7 of H R 3, Conference Report) I have also succeeded in aiding the biotechnology industry in the enforcement of intellectual property rights in the International Trade Commission (Section 1342 of H R 3, Conference Report) All of these initiatives-- plus my work on helping the PTO to raise funds through user fees and increases in appropriated funds -- will crash on the shoals of bureaucratic inertia unless we steer a new course beginning today

During the most recent fiscal year, over 6,000 biotechnology based patent applications were filed -- an increase of substantially more than 10% per year every year since 1982 The rate of increase for biotechnology-based patent applications has been several times greater the average increase in all patent filings More troubling than the numerical increase in applications has been the tardy and ineffective response to them The current average time to open a new biotech patent application case file is 14 to 15 months Even worse, the biotech patent application backlog has increased by more than a thousand cases in the most recent fiscal year The response by the PTO, to date, has been woefully inadequate While I applaud the creation of a new group of patent examiners for biotechnology, other constructive steps to address these problems have been ignored or been implemented only after pressure from the industry

I am familiar with PTO efforts to hire more examiners and other internal management changes Quite frankly, while these changes are welcome they are not enough Specifically, the PTO should be directed immediately to

(1) create a new procedure within the current "petitions to make special" framework that permits applicant designation of certain biotechnology patent applications as high priority For example, such a designation might be allowed for a product in clinical trials Similar special status should be granted to small businesses (and universities) whose principal economic asset is contained in the patent appliciation,

(2) obtain authority from the Office of Personnel Management to pay biotechnology examiners at a special rate Inexplicably, it has taken at least six weeks for the PTO to write a letter and compile materials on this important subject More importantly, a way must be found to make salaries for biotech patent examiners sufficiently competitive with the private sector to retain qualified personnel The existing cash award/incentive system should be modified to meet the unique needs of examiners who deal with biotech inventions,

(3) assure that all new hires have extensive and relevant academic backgrounds,

(4) undertake a massive education program for new biotech patent examiners through the use of senior examiners from the biotech group within PTO, retired examiners and industry experts, and

(5) enhance the quality and strength of biotech patents by increasing the examination hours available for each case and internally re-evaluating more than 4% of the biotech patents The internal reevaluation process will be improved by the assignment of biotech qualified examiners to this team

Fundamentally, the future of biotechnology rests on the creativity of researchers and the strength of our intellectual property laws It is frustrating to the industry and its supporters in the Congress that the vitality of this industry is being thwarted by bureaucratic inattention

Your direct involvement in this issue will meet with favor within the industry and within the legislative branch Our mutual work to improve our intellectual property laws will be a hollow promise unless our creators can receive timely disposition of their patent claims

With warm regards,

Sincerely,

ROBERT W. KASTENMEIER
Chairman
Subcommittee on Courts,
Civil Liberties and the
Administration of Justice

RWK dbv

THE UNITED STATES TRADEMARK ASSOCIATION
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EXECUTIVE OFFICES

June 27, 1988

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Civil Liberties and
the Administration of Justice
2137 Rayburn House Office Building
Washington, D C. 20515

RE: Reauthorization of the Patent and Trademark Office

Dear Mr Chairman:

Thank you for inviting The United States Trademark Association (USTA) to comment on legislation to reauthorize the Patent and Trademark Office (PTO) for fiscal years 1989-91, which will be the topic of hearings before your Subcommittee on June 29, 1988 However, because USTA has not had the opportunity to review proposed legislation, the comments contained in this letter are preliminary and, after the Association has the opportunity to consider such legislation, it may wish to file a more detailed statement As in the past, USTA's views will be limited to issues associated with the PTO's trademark operations and its administration of the Lanham Act

The PTO's current authorization legislation, which expires on September 30 of this year (Public Law 99-607), includes several restrictions Respectively, they

(i) limit trademark fee adjustments to fluctuations in the Consumer Price Index,

(ii) prohibit fees for use of the trademark search room and require that the costs of operating the search rooms be funded from General Fund revenues;

(iii) limit the amount of fee revenues which can be used for automation to not more than 30 percent of automation expenditures; and

(iv) prohibit the use of exchange agreements for the acquisition of automatic data processing resources

In addition, the current authorization imposes certain reporting requirements on the Patent and Trademark Office.

Each of the restrictions contained in the current authorization legislation is important and, for the reasons discussed below, it is the position of USTA that they should be continued and that consideration be given to making some of them permanent In addition, USTA recommends that other provisions relating to trademark fees and PTO spending be adopted and that certain trademark-related functions of the Patent and Trademark Office be improved.

Trademark Fee Adjustments Should be Limited to Fluctuations in the Consumer Price Index

Section 31 of the Lanham Act (15 U S.C. 1113) was revised by Public Law 96-517 and further revised by Public Law 97-247 to provide that the Commissioner "will establish fees for the filing of an application for the registration of a trademark and for all other services performed by and materials furnished by the Patent and Trademark Office related to trademarks " The only restrictions on this fee-setting authority are that "no fee . will be adjusted more than once every three years" and that "no fee will take effect prior to sixty days following notice in the Federal Register." Prior to enactment of Public Law 96-517, trademark fees were prescribed by statute and could only be increased through amendment of the Lanham Act

The provision contained in the PTO's current reauthorization legislation which limits trademark fee adjustments to fluctuations in the Consumer Price Index is very important because it places some measure of restraint on the PTO's authority to increase fees Therefore, USTA believes it should be continued in the next reauthorization bill or, alternatively, that it be made permanent

USTA also recommends that formal Congressional review of the PTO fee structures should be included as part of the PTO's triannual reauthorization process This will assure that the public has the opportunity to comment to Congress in an informed manner and will assure that fees do not become an alternative form of taxation For example, the PTO should be expected to

(i) indicate, with specificity, what adjustments it plans to make to its fees during the following three years,

(ii) provide the projections of costs and income on which it bases the necessity for those adjustments,

(iii) report on the impact of any fee increases that were made during the previous fee cycle; and

(iv) compare patent and trademark fee income and spending to the resources it has obtained and will require from General Revenues

This information should be provided in such a way that the distinction between patent-related and trademark-related income and expenditures is clear

In this connection, USTA also suggests that the format of the PTO's budget be revised so that all costs and income attributed to patents and trademarks are respectively identified under the "Patent Process" and "Trademark Process" line items of the budget This may reduce the need for separate reports and will provide the public, as well as this Committee and the Appropriations Committees, with the type of information required for a clear picture of the PTO's finances

For example, it is clear from a review of the PTO's FY 1989 budget that all of the "Trademark Process" costs of $16 8 million are trademark-related and will be offset by trademark fees This is not the case with the $49.1 million the PTO will spend on "Information Dissemination", of which $26 7 million is to be funded through fees, or with the $39 2 million budget for "Executive Direction and Administration", of which $23 million is to be recovered through fees.

If "Information Dissemination" and "Executive Direction and Administration" costs which are attributed to patents or trademarks are appropriately identified under the "Patent Process" and "Trademark Process" line items respectively, with only those costs which can not be so allocated (e g., costs of the Commissioner's Office and the PTO's legislation and international affairs activities) appearing as part of the other line items, the budget would be easier to interpret and understand

There are four specific reasons why USTA makes these recommendations First, it is not clear from the PTO's budget the extent to which trademark fees underwrite the costs of the Office Statements that 58 percent of the PTO's total FY 1989 budget of $290 million will be offset by fee income, overlook the fact that, with the exception of the trademark search library (which has been funded with appropriated funds only since FY 1986), all of the Office's trademark related costs are funded by trademark fees.

Since FY 1983, user fee financing of the PTO's trademark activities has resulted in significant savings to the Government Looking at those trademark costs which are identified under the "Trademark Process" line item in the PTO's budget, the savings from FY 1983 through FY 1989 amount to over $100 million dollars Added to this are the costs of trademark automation, which appear under the "Executive Direction" line item, and of what the PTO defines as "customer services", under its "Information Dissemination" line item, which have also been funded from trademark fees Thus, total budgetary savings over this seven-year period as a result of trademark fees well exceed $200 million.

Second, USTA remains concerned that the PTO is assessing trademark fees for activities that do not relate to trademarks This would be in violation of 35 U S C 42(c), which strictly limits the use of trademark fee income to trademark-related activities Therefore, a clear and detailed explanation of how all the PTO's costs are allocated between patents and trademarks, and which costs are funded by patent fees, trademark fees, and General Fund Revenues, would give the public needed confidence that user fees are being spent appropriately Such an explanation will also be useful in guaranteeing that fees accurately reflect only those costs that are properly recoverable

Third, such an accounting will assure that even those increases which reflect fluctuations in the Consumer Price Index are warranted, e g , that the cost-savings which automation is intended to produce are reflected As one example of this, trademark printing costs, which accounted for 13 2 percent of the "Trademark Process" line item in FY 1982, are estimated to account for only 4 5 percent of these costs in FY 1989 Certainly, if trademark automation is to realize one of its intended goals, namely that of reducing costs, similar savings should occur in other parts of the budget and should reduce the need for regular fee increases Moreover, because nearly all of the capital expenses associated with trademark automation have been financed through fees, it is not unrealistic to expect that once the system is completed, fees would be reduced

Fourth, it will assure that when fee increases are warranted, fees are adjusted appropriately When Congress adopted Public Law 97-247, this Committee devoted a great deal of time and attention to the trademark fees that would be charged In fact, it stipulated what the fees should be in its Report on the bill One of the principles on which that fee schedule was based was to keep application fees as low as possible so as not to discourage participation in the trademark registration system Ironically, however, when fees were increased in 1986, with somewhat questionable need, the only fee to be increased was the application fee

USTA believes that these recommendations are in keeping with the joint statement issued when Congress passed the current reauthorization bill

> " ..Clearly, both Houses of Congress agree that the Patent Office [sic] needs a clearer user fee policy More information is needed to assure that user fee decisions are made in the public interest Although all fee increases are subject to the maximum limitations provided by this bill and current law, a clearer link needs to be forged between the fee policy and the justifications for fee increases, even if these increases are within statutorily specified limitations "
> (Congressional Record, October 18, 1986, page S 17325)

It also does not foresee that their implementation will impose an undue burden on the PTO Both are consistent with internal accounting procedures now employed by the Office

The Prohibition Against Fees for Use of the PTO's Public Trademark Search Libraries and the Requirement that the Search Libraries are to be Funded from General Fund Revenues Must Continue

Without question, USTA believes that the prohibition against fees for access to the records contained in the PTO's public search libraries, regardless of the form they take, and the requirement that the search rooms are to be funded from appropriations must continue. To assure this, these provisions, which are contained in the PTO's current authorization should be made a permanent part of the law.

The dissemination of information through the PTO's public search libraries gives effect to the patent and trademark laws and to charge fees or impose impediments of any type to their use will discourage their use and undermine the purposes of the laws the PTO is tasked with administering

In its report on the PTO's current reauthorization legislation (H Rept. 99-104, May 15, 1985), the House Judiciary Committee succinctly and aptly stated·

> "The public patent and trademark search libraries are to be wholly supported by appropriated funds The Committee never has explicitly authorized user fees to be charged for access to or use of these rooms and libraries The Committee intends that policy -- which is in effect at this time -- to continue.
>
> " Making official government records available for inspection by the public is one of the most basic functions of government Having patent and trademark records freely available to the public and widely disseminated gives a valuable benefit to the public at large As regards patents, such access also stimulates scientific inquiry and research by providing access to inventive materials In the context of trademark, access makes it possible for constructive notice of proprietary rights to occur "

Similar statements can be found in the Senate Report (S Rept 99-305, May 20, 1986).

In addition, access fees are likely to have a negative practical effects on the entire operation of the Trademark Office Currently, most individuals conduct a search of the PTO's records before initiating use of a mark or, at least, before applying for

registration Fees, however, would encourage prospective applicants to forego searching If this happens, the number of conflicts over trademark rights may significantly increase and, in turn, will increase the burden on the courts to resolve these disputes It may also put an unnecessary and easily-avoided burden on the Trademark Office by forcing it to process applications that would not otherwise be filed This would require the hiring of additional examiners or would increase the pendency of all applications pending before the Office Neither of these consequences is acceptable

Despite clear dictates from Congress that fees to access the PTO's search files are inappropriate, the Patent and Trademark Office continues to regard search fees as a prerequisite to allowing public access to its automated trademark search system Last fall, the Office published a notice in the Federal Register seeking public views on three alternative methods for search room funding, only one of which was consistent with the stated congressional policy that fees are not to be charged and that the search rooms are to be financed through appropriated funds

Of these three alternatives, the one which seems to be favored by the Patent and Trademark Office and the Office of Management and Budget would permit users a certain number of free hours of access per year, after which they would be required to pay Ostensibly, this approach is intended to force professional trademark searchers to pay because their free access to the PTO's automated trademark search file would give them an unfair competitive advantage over commercial search firms which have developed their own data bases In addition to being contrary to the concept of free access to public records and the purposes of the Lanham Act, this proposal is misguided and impractical for a variety of reasons

First, the proposal ignores that professional searches who use the trademark search library are, in fact, members of the public and that they are providing a valuable service to those who cannot otherwise travel to the PTO to make searches for themselves Second, it erroneously equates access with searching; regardless of the sophistication of the PTO's trademark search software, designing effective search strategies requires knowledge and search strategies will vary from one searcher to the next This is what distinguishes one searcher from another, whether that searcher is conducting a search through paper records or via a computer terminal Third, it would require individuals to pay to access an automated system which was designed at public expense in order to improve the way in which the government records and disseminates important public information Fourth, it ignores that commercial search firms who provide automated searches are capable of searches that cannot be performed in the Patent and Trademark Office because of the statutory limitations on the information contained in the PTO's data base Finally, a system allowing each member of the public only

a certain number of hours to search free of charge will be impossible to regulate and expensive to administer, e g , will the PTO be justified in prohibiting persons who live outside the Washington, D C. area from assigning their rights to another so that they can obtain the benefit of the free hours of searching the system will give them?

Fees Revenues Which Can be Spent for Automation Should be Limited to 30 Percent of Automation Costs

As with the other two limitations contained in the current authorization bill, USTA believes that the provision limiting to 30 percent the costs of automation which can be recouped through fees should be continued However, USTA believes that during the coming authorization cycle this provision should be interpreted in the spirit in which it was intended so that trademark, as well as patent, automation expenditures will be subject to the limitation

This limitation reflects a compromise between the House-passed bill, which would have required all automation costs to be funded through appropriations, and the Senate-passed bill, which contained no such provision In remarks appearing in the Congressional Record of October 9, 1986, Mr Brooks explained

> "The compromise is consistent with [the] approach of using appropriated funds, rather than user fees, for capital outlays The automation programs at the Patent and Trademark Office will, in large measure, involve capital expenditures over the next decade 'Capital' expenditures has a well-established meaning in the lexicon of Federal Government accountants Under the accounting rules promulgated by the General Accounting Office, it has been estimated that at least 70 percent of the PTO's automation programs will involve capital expenditures over the next several years Thus, the compromise cap of 30 percent user fees roughly equates to the amount of noncapital expenditures that these computer projects will entail." (page E 3516)

Unfortunately, however, the Patent and Trademark Office has interpreted this restriction as applying to automation costs in the aggregate This has resulted in all trademark automation costs being funded through fees, while somewhat less than 30 percent of patent automation costs have been funded through fees This is inequitable and has resulted in appropriated funds which should have been earmarked for trademark automation being used to finance patent automation

The Prohibition on the Use of Exchange Agreements for the Acquisition of Automatic Data Processing Resources Should Be Extended

The prohibition against the use of exchange agreements to obtain data processing resources was included in the current reauthorization bill because the PTO's use of exchange agreements was found to have avoided the provisions of the Brooks Act And, as a result of it, the PTO was forced to "buy-out" of the exchange agreements it had concluded which limited access to the public trademark records of the PTO

Although USTA is not prepared to comment on the specifics of the buy-out agreements, it notes that a case is presently pending before the U.S. District Court alleging that the PTO continues to make its records unavailable to all but its exchange agreement partners

PTO Fee Income Should Be Exempted from the Provisions of the Gramm-Rudman-Hollings Deficit Reduction Act

The Office of Management and Budget has interpreted that patent and trademark fees are subject to sequestration under the provisions of the Gramm-Rudman-Hollings Deficit Reduction Act This is contrary to the concept of user fees and is in direct conflict with 35 U S C 42(c), which states

> "[F]ees available to the Commissioner under section 31 of the Trademark Act of 1946, as amended (15 U S.C. 1113), shall be used exclusively for the processing of trademark registrations and for other services and materials related to trademarks"

It also ignores that the expenditure of fee revenues has no impact on the deficit

USTA, therefore encourges the Committee to take the opportunity provided by this reauthorization bill to make clear that PTO fee income should not be subject to sequestration

Certain Trademark-Related Activities of the Patent and Trademark Office Require Improvement.

Overall, USTA believes that the quality of trademark examination is excellent. The members of the examining corps are carrying out their responsibilities in a professional and timely manner and the Office has generally been able to maintain its 3/13 pendency goal and has been responsive to the various needs of the private sector

Several changes have contributed to this. Assistant Commissioner for Trademarks Jeff Samuels, who succeeded Margaret Laurence last December, continues to meet the challenges before him In addition, during the past year, the Office was able to obtain grade level increases for certain of its examiners. This

will provide a means by which talented individuals can advance professionally in the operation and will offer an incentive for examiners to stay at the Office It also reflects more accurately the important role trademarks play in the economy and the responsibilities of the Office in administering the Lanham Act

Enactment of the Trademark Law Revision Act, which has passed the Senate, will place new demands on the PTO Because the Office will need to modify its automation and administrative systems to adapt to the changes the intent-to-use application system the legislation creates, USTA is pleased that the Trademark Office has spent the time it has considering how it would implement such a system In the Senate, its comments were extraordinarily useful and USTA believes that the Office is well-equipped and will be prepared to deal with the changes the system would require

At the same time, there are certain areas which are in need of improvement Backlogs at the Trademark Trial and Appeal Board continue to be excessive Although the Board is disposing of increased numbers of cases each year, it is not able to keep pace with the number of filings USTA is hopeful that the addition of a new Board member will help resolve this problem, but it will not eliminate it entirely

Additionally, certain administrative functions of the PTO need to be improved Although they do not fall under the jurisdiction of the Assistant Commissioner for Trademarks, they are vital to the effective operation of the trademark registration system For example, backlogs in the mailroom are causing unacceptable delays between the filing of applications and the availability of trademark drawings in the search room and must be eliminated Equally important, overall conditions in the trademark search room continue to be a source of complaint and a cause for concern Finally, the PTO's trademark assignment records are in a deplorable state, despite the fact that the cost for recording a trademark assignment is $100 00, or roughly five times the cost for recording a patent assignment

Lastly, USTA would like to encourage that the PTO move forward in completing its trademark automation project and in obtaining a "stand-alone" trademark system Additionally, public access to the automated trademark system should be allowed without further delay

Conclusion.

USTA believes that the recommendations discussed in this letter are important and should be adopted as part of legislation reauthorizing the Patent and Trademark Office for fiscal years

1989-91. Those which relate to fees and spending are particularly important if the Office is to have the confidence of the public it serves and which finances its operations

The Association welcomes the opportunity to provide further information and to answer any questions you may have.

Very truly yours,

Ronald S. Kareken
President

RSK:cc

PATENT AND TRADEMARK OFFICE APPROPRIATIONS

Public Law 99-607
99th Congress

An Act

Nov 6, 1986
[H.R. 2434]

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes

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

SECTION 1 AUTHORIZATION OF APPROPRIATIONS

(a) PURPOSES AND AMOUNTS.—There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $101,631,000 for fiscal year 1986, $110,400,000 for fiscal year 1987, and $111,900,000 for fiscal year 1988, and

(2) such additional amounts as may be necessary for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law

(b) REDUCTION OF PATENT FEES.—(1) Amounts appropriated under subsection (a) shall be used to reduce by 50 per centum each fee paid on or after October 1, 1985, under section 41(a) or 41(b) of title 35, United States Code, by—

(A) an independent inventor or nonprofit organization as defined in regulations prescribed by the Commissioner of Patents and Trademarks, or

Small business

(B) a small business concern as defined under section 3 of the Small Business Act (15 U S C 632)

(2) Section 41 of title 35, United States Code, is amended by adding at the end the following new subsection

Small business

"(h)(1) Fees charged under subsection (a) or (b) shall be reduced by 50 percent with respect to their application to any small business concern as defined under section 3 of the Small Business Act, and to any independent inventor or nonprofit organization as defined in regulations issued by the Commissioner of Patents and Trademarks

"(2) With respect to its application to any entity described in paragraph (1), any surcharge or fee charged under subsection (c) or (d) shall not be higher than the surcharge or fee required of any other entity under the same or substantially similar circumstances."

35 USC 42 note

SEC 2 APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U S C 1051 and following) may remain available until expended

15 USC 1113 note

SEC 3 OVERSIGHT OF AND LIMITATIONS ON TRADEMARK AND CERTAIN PATENT FEES

(a) TRADEMARK FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 31 of the Trademark Act of 1946 (15 U S C 1113) except for purposes of making adjustments which in the

aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner also may not establish additional fees under such section during such fiscal years

(b) PATENT FEES —The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor The Commissioner also may not establish additional fees under such section during such fiscal years 35 USC 41 note

(c) REPORT TO CONGRESS —The Secretary of Commerce shall, on the day on which the President submits the annual budget to the Congress, provide to the Committees on the Judiciary of the Senate and the House of Representatives— 35 USC 14 note

(1) a list of patent and trademark fee collections by the Patent and Trademark Office during the preceding fiscal year,

(2) a list of activities of the Patent and Trademark Office during the preceding fiscal year which were supported by patent fee expenditures, trademark fee expenditures, and appropriations,

(3) budget plans for significant programs, projects, and activities of the Office, including out-year funding estimates,

(4) any proposed disposition of surplus fees by the Office, and

(5) such other information as the committees consider necessary

SEC 4 FEES FOR USE OF SEARCH ROOMS AND LIBRARIES PROHIBITED 35 USC 41 note

The Commissioner of Patents and Trademarks may not impose a fee for use of public patent or trademark search rooms and libraries The costs of such rooms and libraries shall come from amounts appropriated by Congress

SEC 5 CONGRESSIONAL OVERSIGHT AND LIMITATIONS ON THE USE OF FEE REVENUES FOR PROPOSED PURCHASE OF AUTOMATED DATA PROCESSING SYSTEMS

(a) FUNDING OF AUTOMATED DATA PROCESSING RESOURCES —

(1) ALLOCATIONS —Of amounts available to the Patent and Trademark Office for automatic data processing resources for fiscal years 1987 and 1988, not more than 30 percent of such amounts in each such fiscal year may be from fees collected under section 31 of the Trademark Act of 1946 (15 U S C 1113) and section 41 of title 35, United States Code The Commissioner of Patents and Trademarks shall notify the Committees on the Judiciary of the Senate and the House of Representatives of any proposed reprogrammings which would increase or decrease the amount of appropriations expended for automatic data processing resources

(2) USE OF REVENUES BY PATENT AND TRADEMARK OFFICE — Except as otherwise specifically provided in this Act and section 42(c) of title 35, United States Code, the Patent and Trademark Office is authorized to use appropriated or apportioned fee revenues for any of its operations or activities

(b) REPORT BY COMMISSIONER ON IMPLEMENTATION AUTOMATION PLAN —At least 90 calendar days before the date of implementation of each key deployment decision provided for in the revised master

automation plan that was approved by the Secretary of Commerce and the Director of the Office of Management and Budget and that was submitted, in February 1986, to the Committees on the Judiciary of the Senate and the House of Representatives, the Commissioner of Patents and Trademarks shall report the proposed implementation to those committees Each key deployment decision shall be approved by the designated Senior Official for Information Resources Management of the Department of Commerce before the report on the decision is made under the preceding sentence Each such report on a key deployment decision shall include the cost and method of financing the deployment decision, including, where appropriate, a comparison with the cost benefit analysis contained in the revised automation master plan, as well as such other information as the committees consider necessary

Contracts
Reports

(c) PROHIBITION ON NEW OBLIGATIONS —The Patent and Trademark Office may not enter into any new contract, or obligate any funds, to implement a key deployment decision described in subsection (b) until the expiration of 90 calendar days after the report with respect to such deployment decision is submitted under such subsection

(d) EFFECTIVE DATE —Subsections (b) and (c) take effect on January 1, 1987

Contracts
International organizations
35 USC 6 note

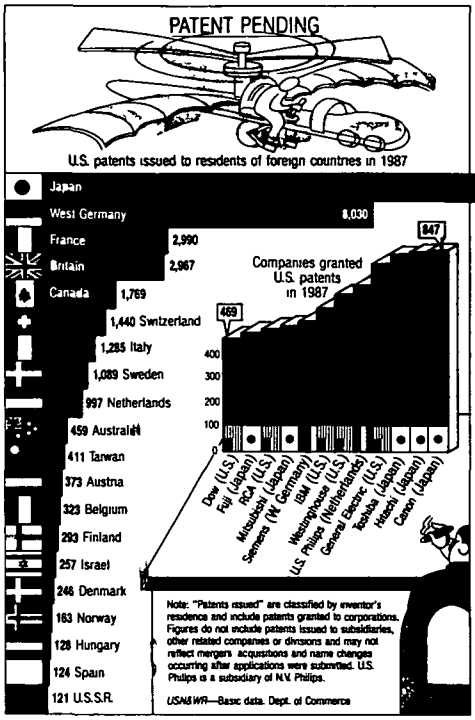
SEC 6 USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED

The Commissioner of Patents and Trademarks may not enter into new agreements for the exchange of items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data) during fiscal years 1986, 1987, and 1988, nor continue existing agreements for the exchange of such items or services after April 1, 1987 This section shall not apply to any agreement relating to data for automation programs entered into with a foreign government or with an international intergovernmental organization

Approved November 6, 1986

LEGISLATIVE HISTORY—H R 2434

HOUSE REPORTS No 99-104 (Comm on the Judiciary)
SENATE REPORTS No 99-305 (Comm on the Judiciary)
CONGRESSIONAL RECORD
Vol 131 (1985) June 24, considered and passed House
Vol 132 (1986) June 6, considered and passed Senate, amended
Oct 2 House concurred in certain Senate amendments, in others with amendments
Oct 18 Senate concurred in House amendments
WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS Vol 22 (1986)
Nov 6, Presidential statement.



An imbalance of patents

◄ The Japanese have literally patented their business success in the United States. Of the record 89,385 patents issued last year by the U.S. Patent Office, 17,288—or nearly 20 percent—went to residents of Japan. Having ousted West Germany in 1975 as the No. 1 foreign nation in obtaining U.S. patents, Japan has dominated ever since. Though more than half of all patents go to American citizens or companies, the percentage granted to foreigners in the past 20 years has more than doubled. It takes the Patent Office, an average of 21 months to process an application, and patents are granted to some 7 out of every 10 applicants. If you have an idea that you think can be patented but don't know how to go about it, write U.S. Patent Office, Commissioner of Patents and Trademarks, Washington, D.C. 20231

Compiled by Michael H. Gallagher, Marianna I. Knight, Jo Ann Tooley and Erin Tyndall

IBA Reports

An update on the activities of the Industrial Biotechnology Association

Biotech Patent Backlog A Major Concern

After six years of an increasing build-up of biotechnology applications at the U S Patent Office, a matching swell of concern about it is forming on Capitol Hill Within three months, three influential members of Congress have voiced concerns about a 6,000-plus backlog to the highest administrators at the U S Commerce Department and U S Patent and Trademark Office.

Sen Patrick Leahy Rep Ron Wyden and Rep *Robert Kastenmeier have all* expressed their official concern in letters to either Secretary of Commerce William Verity or Patent Commissioner Donald Quigg

The Industrial Biotechnology Association supports these high level communiques, having also aggressively pursued a strategy with the Patent Office designed to significantly reduce patent biotechnology applications. On April 22, after careful review by its patent lawyers and Board of Directors the IBA wrote Quigg that Patent Office steps announced at a March 29 congressional hearing to reduce the backlog of biotechnology patents "were favorably received by the business community."

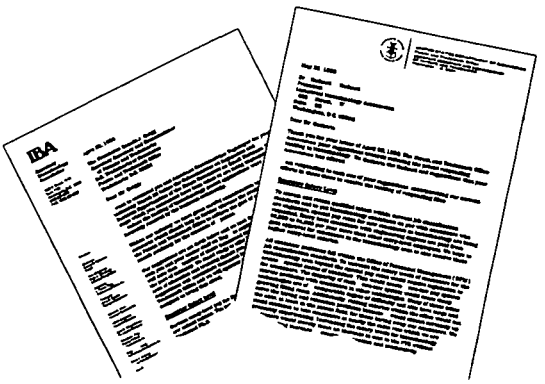
However President Richard D Godown also elaborated additional measures which should further alleviate the problem and enable the PTO to achieve a goal of an 18-month pendency for the issuance of a patent.

According to PTO statistics the annual rate of increase in biotech patent applications has averaged 20 percent since 1982 compared with an average annual rate of increase for all patent filings of 2.5 percent. As a result, it now takes almost 15 months for a patent examiner to *begin* work on a typical new biotech application and another 15 months to *complete* it.

Godown's letter preceding a May 2 meeting with the patent commissioner also suggested several measures involving "volunteer action on the part of the industry We stand ready to offer help particularly in the areas of education and training should you deem it appropriate Other suggestions will necessitate increased funding for the PTO and we will sponsor and support legislative initiatives designed to bring this about."

IBA recommendations included:

- increasing entry level pay for new biotech patent examiners to attract the best and brightest scientists to PTO;
- *purchasing personal computers so* examiners can type their own office actions, rather than wait two or more weeks for secretarial assistance;
- increasing the amount of office space for examiners to permit greater privacy and productivity;
- obtaining additional subscriptions to scientific journals to avoid the current wait to obtain them



- hiring additional examiners to reduce the ratio of applications to examiners;
- appraising performance based on quality as well as production
- splitting patent examinations into search and examination components, using search technicians for the former and examiners for the latter and,
- providing a "make special" provision enabling small biotech companies to obtain expedited review of important applications.

These recommendations were discussed at the meeting with Quigg and his staff in early May Most were labeled unfeasible by the group but no alternatives were advanced This position was confirmed in a follow up letter to IBA from Quigg several weeks later

Subsequently IBA members and staff met with Kastenmeier D-Wis. chairman of the patent subcommittee of the House Judiciary Committee, to discuss the association's concerns Kastenmeier a principal supporter of process patent reform and other intellectual property improvements, wrote the secretary of commerce urging him to "directly and personally" intervene in the problem.

BACKLOG, *cont. on p. 9*

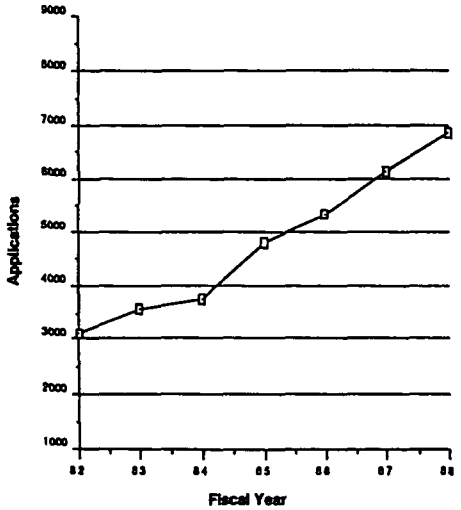
Fact Sheet

Backlog in Biotechnology Patent Applications

All statistics cited below were supplied by the U S Patent and Trademark Office (PTO).

Total number of new biotech applications received in 1982	3 116
Total number of new biotech applications received in 1983	3 548
Total number of new biotech applications received in 1984	3 756
Total number of new biotech applications received in 1985	4 784
Total number of new biotech applications received in 1986	5,350
Total number of new biotech applications received in 1987	6,153
Total number of new biotech applications received in 1988	6,850
Average annual rate of increase in biotech filings since 1982	20%
Average annual rate of increase in all patent filings since 1982	2.5%
Average time between PTO receipt of a new biotech patent application and the opening of a case file	14-15 months
Average pendency period for biotech patent applications	*29-30 months*
Average pendency period for all patent applications	21-22 months
Total number of biotech applications pending as of 12/31/86	5 837
Total number of biotech applications pending as of 12/31/87	6,907
Increase in number of biotech applications pending during 1987	22%
Total number of patent examiners in new Group 180	Approx. 80
Ratio of pending biotech applications to examiners	86-to-1
Ratio of new biotech applications to examiners	86-to-1

BIOTECH APPLICATION RECEIPTS



BACKLOG, *cont. from p. 1*

"The presence of strong intellectual property protection has contributed to allowing the U S biotechnology industry to lead our worldwide competitors " Kastenmeier wrote in the June 21 letter Unfortunately the PTO failure to aggressively respond to the backlog of biotechnology patent applications now threatens this lead Strong laws and advanced research will be unavailing if the PTO continues to fumble this issue "

Kastenmeier urged the Patent Office to take certain steps immediately including creating a new procedure that permits companies to designate certain biotech patent applications as high priority (as is done at FDA for new drug applications) obtaining authority to pay biotech examiners at a special rate of pay undertaking a massive education program for new biotech examiners, and enhancing the quality of issued patents by improving internal quality control mechanisms.

"Fundamentally the future of biotechnology rests on the creativity of researchers and the strength of our intellectual property laws," Kastenmeier said. Verity's "direct involvement in the issue will meet with favor within the industry and within the legislative branch The time for rhetoric about competitiveness is past."

This was at least the second letter in recent weeks from a member of Congress to Verity Following the House Small Business Committee s Subcommittee on Regulation and Business Opportunities hearings at which the Patent Office testified Wyden D-Ore criticized the PTO s 13-point Plan for improving the backlog as inadequate

Wyden who had called the hearings after complaints from small businesses trapped in this never-never land of regulatory dysfunction " also called attention to the biotech patent backlog in a speech on the floor of the House of Representatives. He and Rep Neal Smith D-Iowa, recognized it had the potential to cripple the nascent biotech industry Smith who chairs the appropriations subcommittee which allocates tax dollars to the Patent Office promised to scrutinize the issue more closely prior to a September determination about PTO funding

A powerful senator had also expressed his concern about the biotech-

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BACKLOG, *cont. from p. 9*

nology backlog to Quigg Leahy D-Vt, chairman of the Judiciary Committee s technology and law subcommittee asked the commissioner to provide a detailed report describing the manner in which biotech patent applications are reviewed "I have a great interest in America s emerging biotech industries " Leahy wrote "American innovators and inventors may use biotechnology to solve many of the world s problems—hunger disease energy needs and pollution Biotechnology can also enhance America's future competitiveness since it can contribute mightily to the 21st Century marketplace."

IBA Patent Subcommittee Formed

IBA s Law Committee has created a Patent Subcommittee. It will continue to monitor and address the backlog situation. It is chaired by George Johnston senior patent counsel Hoffmann-La Roche Inc. ■

In his response, Quigg said, "We are doing everything possible to help assure that the industry reaches its fullest potential."

In an attempt to address the backlog, the PTO recently reorganized its biotech patent operations combining separate groups which previously handled biotech inventions. The new group designated Group 180, has approximately 80 examiners. Nevertheless, the ratio of new biotech applications to examiners is 86-to-1 and many industry sources believe the problem will get worse before it gets better

In a later development, Patent Commissioner Quigg told IBA in a June 17 letter that a total of 16 additional examiners will be hired for eventual assignment to the biotechnology area. Group 180 will get both the 20 new examiners previously announced in the fiscal year '88-'89 hiring level, plus eight more Other chemical groups will give initial training to still another eight new examiners, who will then be transferred into Group 180 A total of 36 new hires will offset the anticipated loss of 16 examiners in Group 180 for a net gain of 20 and will be available to whittle down the biotechnology backlog at the Patent Office. ■

Biotechnology Advances Make Life Hard for Patent Office

By KEITH SCHNEIDER

WASHINGTON

WHEN Thomas Jefferson wrote the Patent Act in 1793 he didn t think to include animals among the items of art machine manufacture or composition of matter that could be patented

Last week though the United States Patent and Trademark Office determined that a mouse transformed through genetic manipulation fit the legal requirements for a new invention and it awarded the world s first animal patent to Harvard University

It took the Patent Office nearly four years to approve Patent No 4 736 866 for a transgenic nonhuman mammals. Despite its intimate contact with the most sophisticated technologies the Patent Office s procedures differ little from those employed by Jefferson when he granted the Vermont inventor Samuel Hopkins the nation s first patent for a process to manufacture potash The average length of time needed to review and issue a biotechnology patent is 32 months according to the Patent Office a year longer than the time needed to consider applications in other fields

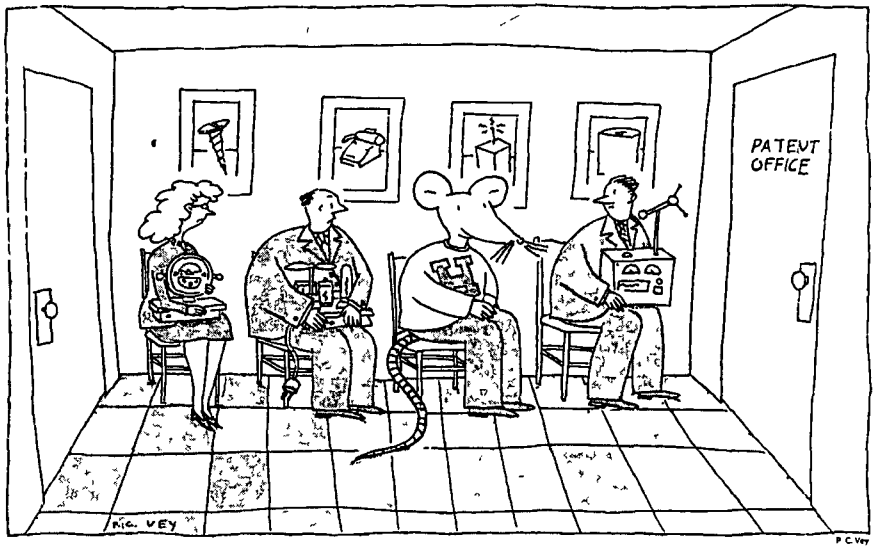
We really have a quill pen system to deal with 21st century technology said Representative Ron Wyden an Oregon Democrat who is chairman of a House Small Business subcommittee that held hearings last month on delays in reviewing biotechnology patent applications.

When it comes to cutting edge technology the patent approval process can shape or warp the future of a fledgling industry Mr Wyden said The Patent Office s trouble with application processing has clouded the future of this promising domestic industry

Learning to manipulate genes to make new forms of plants microbes and animals as well as drugs and other biological substances can be extremely difficult But once the alterations are known the products are often easy to duplicate Without patents which grant exclusive rights to an invention for 17 years, biotechnology companies naturally are reluctant to publicize their discoveries delaying the introduction of products

In instances where biotechnology companies have introduced unpatented inventions competitors have moved in with similar products, resulting in a welter of infringement suits The delays are especially harmful to small companies seeking to patent their products so that they can get chemical and pharmaceutical corporations to market them

It is too early to know whether history will consider Harvard s mouse as important as Thomas Edison s incandescent lamp (Patent No 223,898) or the flying machine invented by Orville and Wilbur Wright (Patent No 821 393) Dr Philip Leder a geneticist at Harvard Medical School and Dr Timothy A Stewart a former Harvard researcher inserted into the chromosomes of a mouse a gene that in most mammals produces cancer This provided scientists with a reliable biological system for testing new cancer therapies and for understanding more clearly how genes contribute to the development of malignancy



Harvard applied for the patent in June 1984 Until April 1987 when the policy on patenting animals was changed the application languished one of thousands overwhelming the Patent Office s biotechnology examiners But Harvard was lucky When Patent Office officials began last year to look for a strong candidate to open a new era in patent history they seized upon the university s application

Twenty-one other proposals for patenting animals are among the 14 000 biotechnology applications still pending The rate of increase in applications for pharmaceuticals altered microbes, engineered animals and other new biological products was greater during the 1980 s than for any other technology including computers and superconductors

Donald J Quigg, Assistant Secretary of Commerce and Commissioner of Patents, told the the Congressional panel that his agency recognized the problem in 1985 but a solution has proved elusive Attempts to hire more molecular biologists and train them as examiners are hampered by the comparatively low wages We want to obtain special pay rates for new examiners in this area Mr Quigg said

Congressional investigators say the Patent Office s problems are more basic The world s largest depository of technical information still files its 28 million documents by hand filling boxes shelves and cabinets throughout a three building complex in Arlington Va

When the subcommittee s investigators toured the Patent Office last month they discovered that applications sent in months earlier were still in the agency s mailroom In an office beyond the mail room the investigators found applications that had been sitting in wire carts since 1986

In 1984 the Patent Office began to install a $500 million computer system to automate many of its procedures But it is not working properly. According to study by the General Accounting Office the investigative arm of Congress the project is at least a year behind schedule and could incur cost overruns of $139 million

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