FILE

UNITED STATES 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

NINETY-NINTH CONGRESS

FIRST SESSION

ON

UNITED STATES PATENT AND TRADEMARK OFFICE AUTHORIZATION

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UNITED STATES PATENT AND TRADEMARK OFFICE AUTHORIZATION

THURSDAY, MARCH 21, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES,
AND THE ADMINISTRATION OF JUSTICE,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met at 10:30 a.m., in room 2226, Rayburn House Office Building, Hon. Robert W. Kastenmeier (chairman of the subcommittee) presiding.

Present: Representatives Kastenmeier, DeWine, and Coble.

Staff present: Michael J. Remington, chief counsel; David Beier, counsel; Thomas E. Mooney, associate counsel; and Audrey Marcus, clerk.

Mr. KASTENMEIER. The subcommittee will come to order.

This morning we convene to consider legislation to authorize appropriations for the Patent and Trademark Office in the Department of Commerce.

During the 97th Congress, as a result of the 1981 Budget Reconciliation Act, this subcommittee for the first time engaged in the PTO authorization process. Enactment of the relevant public law authorized moneys to be appropriated during a 3-year budgetary period, fiscal years 1983 through 1985. The period covered by that law will end on October 1 of this year, and therefore it is our responisibility to reauthorize the Patent and Trademark Office for 3 additional years, 1986 through 1988.

Before calling our first witness, I would like to remind those present that we are a government "of the people, by the people, for the people." The role of all government, certainly including the Patent and Trademark Office, is to serve the public interest. As observed long ago by Chief Justice Marshall in the famous case of *McCulloch* v. *Maryland*:

> The government of the Union, then, is emphatically and truly a government of the people. In form and in substance it emanates from them. Its powers are granted by them, and are to be exercised directly on them and for their benefit.

In this regard, I want to emphasize the role of the Patent and Trademark Office as servant of the people rather than an extension of any specialized interest. Hopefully, the authorization bill that we produce will reflect this perspective.

One member of the subcommittee not here at the moment, Congressman Jack Brooks, has conveyed his view to me that there may be problems with the Patent and Trademark Office's procurement process. A GAO study of the House Committee on Government Op-

erations is nearing completion. Congressman Brooks therefore has observed that a second day of hearings may be appropriate. I say this because it obviously does affect the Patent and Trademark Office.

I would ask unanimous consent to insert a copy of Congressman Brook's letter in the hearing record.

Mr. KASTENMEIER. Before calling the first witness, I would yield to my colleague from Ohio.

Mr. DEWINE. Thank you, Mr. Chairman. I am familiar with the testimony this morning and I am concerned about the cut in public support of some $16 million. It is my understanding this subcommittee made the decision 4 years ago, before I was a Member of Congress, Mr. Chairman, to try and take the Patent and Trademark Office out of the Dark Ages. At that time there was a backlog of 26 months to get a patent, and anywhere from 2 to 25 percent of any particular patent search file was missing at any given time. The office really had become the stepchild of the Commerce Department. It was not until an amendment passed the full Judiciary Committee that actually separated the Patent and Trademark Office from the Department of Commerce that our colleagues got any attention for this particular problem.

The mandate this committee gave, if any, to the Patent and Trademark Office was to do what was necessary to become a model for the world. It has been a difficult struggle. Fees have been substantially increased and an entire mechanism for computerizing the office has been established.

I believe we have made substantial progress, and I think this subcommittee must continue to be vigilent in assuring that this office does not slide back into what it was just a few years ago.

Mr. Banner's testimony this morning, which will follow the Commissioner's, raises some important concerns about the long-term impact this budget recommendation will have on the Patent and Trademark Office. I hope this morning we can carefully examine where we are headed with the Patent and Trademark Office.

Thank you very much, Mr. Chairman.

Mr. KASTENMEIER. I thank my colleague. And I would like to greet our new colleague, Mr. Coble from North Carolina, who is a member of the Judiciary Committee and of this subcommittee. We are very pleased to have you here.

Mr. COBLE. Thank you, Mr. Chairman.

Mr. KASTENMEIER. I would hope that we can expedite the hearing this morning; I hope it will not become protracted. I know members have other responsibilities, and indeed so do the witnesses. So to the extent that we can possibly abbreviate the statements or otherwise move expeditiously, it would be helpful.

Without objection, the committee will permit the meeting this morning to be covered, pursuant to rule 5 of the committee rules, in whole or in part by still photography or otherwise.

I am very pleased to greet the Acting Commissioner of the U.S. Patent and Trademark Office. He is also Acting Assistant Secretary for the U.S. Patent and Trademark Office in the U.S. Department of Commerce. I guess he is really wearing two hats, as Acting Assistant Secretary and as Acting Commissioner. Hon. Donald J. Quigg.

We are very pleased to hear from you, Mr. Quigg. We have your statement, and if you care to proceed from it or abbreviate it, you may.

TESTIMONY OF HON. DONALD J. QUIGG, ACTING ASSISTANT SECRETARY AND COMMISSIONER OF PATENTS AND TRADEMARKS, ACCOMPANIED BY BRADFORD HUNTER, ASSISTANT COMMISSIONER, FINANCE AND PLANNING

Mr. QUIGG. Thank you, Mr. Chairman and members of the subcommittee.

We will abbreviate the statement that we have on file. I would like to read a portion of it, however.

I welcome this opportunity to appear before your subcommittee today. My prepared statement addresses three topics: One, a review of the status of our programs to upgrade the U.S. Patent and Trademark Office to improve its service to industry and inventors; two, a summary of our activities affecting the protection of patents and trademarks internationally; and three, an outline of our legislative activities.

Three years ago we reported to you that the Patent and Trademark Office was not serving the needs of inventors and industry adequately. Since then the administration has made a commitment to turn things around at the Patent and Trademark Office through an aggressive threepoint plan:

To reduce the average time it takes to get a patent to 18 months by 1987;

To register trademarks in 13 months, with an opinion on registrability being given an applicant in 3 months by the end of 1985; and

To take aggressive steps toward automation of the Office by 1990.

Our fiscal year 1985 program level is $202.267 million, which is comprised of an appropriation of $101.631 million and projected fee receipts of $100.636 million. However, the Deficit Reduction Act of 1984 reduced this amount by $1.472 million. We are in the process of determining how we can best absorb this reduction.

The 1986 program level request for the Patent and Trademark Office is $219.236 million, an increase of $16.969 million over the program level for 1985. With projected offsetting fee receipts authorized by Public Law 97-247 of $118.504 million, and $15.993 million of accumulated excess patent and service fees from the period 1983 through 1985, the 1986 appropriation request represents less than 39 percent of our operating costs, or $84.739 million. This is a net decrease of $16.892 or 17 percent when compared to the 1985 appropriation level.

We ended the growth in the backlog of pending patent applications in fiscal year 1984 and are on schedule in our plans to reduce the time it takes to get a patent to 18 months by 1987. In fiscal year 1984 we received 109,539 patent applications and disposed of or completed work on 113,300 applications.

The average pendency, that is, the time it takes from filing to either grant or abandonment, was 25 months at the end of fiscal year 1984 and is currently 24.6 months.

We plan to produce 125,400 first actions and 118,600 disposals. We expect to reach a pendency of 23.2 months by the end of this fiscal year.

We have hired 660 examiners over the past 3 years and plan to hire an additional 200 examiners this year. This will bring our total professional examining staff to over 1,500.

Our second commitment is to give first opinions on the registrability of trademarks in 3 months and to finally dispose of them in 13 months by the end of the 1985 fiscal year. I am pleased to say that we are on target and will achieve these goals this year.

In fiscal year 1984 61,480 trademark applications were filed and 82,130 disposals were achieved, including 45,475 registrations. This year we expect to receive 62,500 trademark applications and to produce 80,300 disposals and 64,600 registrations.

In the trademark area the main automation effort is expected to be completed this year. "T-Search," the system that we will use for searching and retrieving information about registrations and applications, is substantially complete. We began using the system on a limited basis for searching and retrieving the word portions of trademarks in July 1984.

The part of the system for searching the design components of trademarks is in the final stages of testing. We anticipate that we will begin automated searching of design marks by the beginning of fiscal year 1986.

In the patent area the PTO selected Planning Research Corp., as the systems contractor to develop and install the automated patent search system. PRC is being supported by Chemical Abstracts Service, a nonprofit arm of the American Chemical Society. The contract costs are expected to be $13 million this fiscal year and are expected to total $300 million over the next 20 years if the PTO exercises all of its options.

Initial testing of the system is expected to begin in July 1985 in group 220, one of our examining groups. About 1 year later the system will begin to be gradually extended to other examining groups.

The automated patent search system will have a number of improvements that are essential to the continued effective operation of the Patent and Trademark Office. Perhaps the most important of these is assurance of the completeness of the search files. File integrity will greatly improve the quality of patents we issue and trademarks we register. This is an important step in achieving our goal of providing the public with a first-class Patent and Trademark Office.

On February 8, 1985, Secretary Baldrige forwarded to Congress proposed authorizing legislation for the Patent and Trademark Office for fiscal years 1986 to 1988. Reduced patent fees for small businesses, nonprofit organizations and independent inventors, as provided for in Public Law 97-247, would be continued. Fees collected by the Patent and Trademark Office and all appropriations provided to it would remain available without any fiscal year limitation, as also provided in Public Law 97-247.

On February 13, 1985, Secretary Baldrige forwarded to Congress legislation to implement chapter II of the Patent Cooperation Treaty. This legislation, if enacted, would authorize the United

States to serve both as an International Preliminary Examinating Authority and an elected Office under the treaty.

The Department of Commerce is attempting to develop legislation for simplifying and improving the patent and trademark laws. Under study are measures to shorten the response time for trademark applicants, to eliminate the requirement to verify petitions to cancel a mark, and to amend the plant patent law to protect plant parts.

Also under study is legislation for protecting original ornamental designs. Under consideration is legislation patterned after the Design Protection Act, H.R. 2985, introduced in the 98th Congress by Mr. Moorhead.

Several laws enacted during the 98th Congress require implementing regulations and procedures for them to be administered. The Patent and Trademark Office has taken the needed steps.

Guidelines to implement title II of Public Law 98-417, the Drug Price Competition and Patent Term Restoration Act of 1984, were published in the Office's Official Gazette on October 9, 1984. We plan to publish regulations by late summer. To date 15 applications for patent term extensions have been received. Of these, 11 have been sent to the Secretary of Health and Human Services. The remaining four are still under review in the Patent and Trademark Office.

We are also involved, as this subcommittee knows, with the implementation of the Semiconductor Chip Act of 1984. Section 902 of this law authorizes the President to proclaim eligibility for protection under this law for a foreign mask work owner if that owner's home country provides equal or adequate protection for mask works of U.S. origin. A request for the President to issue such a proclamation has just been received from the United Kingdom and is being considered.

Section 914 of the same law authorizes the Secretary of Commerce to determine on an interim basis the eligibility for protection of a mask work of foreign origin. A petition for protection has been received from the Electronic Industries Association of Japan. On the basis of information recently received from the Government of Japan, we are planning to request comments and hold a hearing on this petition in the near future.

The Federal Register of March 7, 1985, contains final rules of practice needed to put into effect various requirements of Public Law 98-622, the Patent Law Amendments Act of 1984, enacted on November 8, 1984.

Public Law 98-622 also permitted us to merge our Board of Appeals and Board of Patent Interferences and to streamline our patent interference practices. We published regulations to implement the changes in patent interference practice in the Federal Register of December 12, 1984.

We have been involved in a number of activities affecting the protection of patents and trademarks internationally. First and foremost has been the 11-year effort to revise the Paris Convention for the Protection of Industrial Property. The fourth session of the Diplomatic Conference held in Geneva, Switzerland, from February 27 to March 23, 1984, was again attended by a strong U.S. delegation. Not only did we have outstanding industry advisers with the

delegation at all times, we were fortunate enough to have Mr. Kindness from the subcommittee and Joe Wolfe, assistant minority counsel for this subcommittee, as advisers.

Although an acceptable compromise had been developed during the third session of the Conference in 1983, it could not be agreed upon during the fourth session. In light of this stalemate, the Conference recommended that the Assembly of the Paris Union convene a fifth session of the Conference only after prospects for positive results were found. It also requested that the Assembly set up machinery for consultations designed to achieve these results.

A consultative meeting has been set for June in Geneva. I have just returned from a meeting in Munich, Germany, at which the developed countries reviewed the position they will take at the consultative meeting. I can report that the developed countries have reaffirmed their previous position on articles 1, 5A, and 10 later developed during the last session of the Diplomatic Conference.

The Office has actively worked with other countries to improve intellectual property protection available to U.S. nationals worldwide. In the past year we have provided training and technical assistance to 11 developing countries and the African Intellectual Property Organization. Beginning in July of this year we are instituting a trial program to train officials from developing countries who are working in the intellectual property field in an attempt to raise their awareness of the need for effective protection of intellectual property and to give them the necessary expertise to bring this about.

Finally, we are very pleased that the People's Republic of China has adopted a patent law which will enter into force on April 1, 1985. We have helped China establish documentation centers in Beijing and six other cities and have provided them with collections of U.S. patents to effectively implement this law.

That concludes my statement, Mr. Chairman. Before we go further, I would like to say that I have with me at the table Mr. Bradford Huther, who is the Assistant Commissioner for Finance and Planning of the Patent and Trademark Office.

Mr. KASTENMEIER. Thank you very much, Commissioner Quigg, for your statement. I am very pleased that the final note suggests that we are gradually getting some universality with respect to intellectual property involvement worldwide and continue to make progress along that line. That is very reassuring.

We will want to pursue some matters in more depth, and my feeling is, due to certain time constraints this morning, we would like to explore a couple of issues with you through letter and response, if you don't mind.

Mr. QUIGG. Certainly.

Mr. KASTENMEIER. I do have a couple of questions, but I would first like to yield to the gentleman from Ohio, Mr. DeWine.

Mr. DEWINE. Thank you, Mr. Chairman. I just have a couple of questions.

It is my understanding it has been the practice to turn back surplus money to the Treasury. Is that mandated by statute or is that an administrative decision?

Mr. QUIGG. That is not mandated by statute; it was an administrative decision.

Mr. DEWINE. Could you share with us what the thinking was behind that other than the fact that we have a huge federal deficit, which is the obvious answer? Why was that not used to improved the patent process and speed things up?

Mr. QUIGG. I must point out that the total budget for this year, the budget authority plus the fees, is an increase over the budget of 1985 by some $16.9 million. This was brought about by the fact that we will be increasing fees on October 1, and we anticipate that fee increase will bring something like $33 million, and half of that offsets the revenues that were transferred or deferred to the 1986 budget.

Mr. DEWINE. It is my understanding that the budget proposes to cut about 140 positions from patent processing; is that correct?

Mr. QUIGG. That is correct.

Mr. DEWINE. Could you explain the justification for that?

Mr. QUIGG. As we approach 1987 the work load of the Office is going to go down. Rather than end up in 1987 and have a rather large RIF take place, what we are attempting to do is to reduce our staff as we feel we can while still maintaining a high concentration on the quality of the product that we get out of the office.

Mr. DEWINE. Why is the work load going down?

Mr. QUIGG. We have finally overcome the backlog that had been building in the Patent and Trademark Office for many, many years. Once we reach the pendency of 18 months by 1987, the work load will be reduced to the levels of receipts.

Mr. DEWINE. The goal is 18 months?

Mr. QUIGG. Yes.

Mr. DEWINE. How was that arrived at?

Mr. QUIGG. It was taken out of the air.

Mr. DEWINE. Well, that's like a lot of our decisions we make in Congress, too.

Mr. QUIGG. It was an agreement that was made before I came into government, but as I understand it, it was something that the Secretary and the representative of the American Patent Law Association discussed, and at that time I think it was determined that 18 months would be probably the best period of time for pendency of an application. That has become one of the goals of the Commerce Department and it was adopted by OMB and Congress as the budgets were set.

Mr. DEWINE. Thank you.

Mr. KASTENMEIER. I thank my colleague for his statements.

One of the issues raised by a sister committee is your procurement practices with respect to the employing of the device of exchange agreements rather than the regular procurement contract. That seems to trouble certain members of the Government Operations Committee. I wonder if you could tell us currently what is the policy or what is the practice of the PTO in that connection.

Mr. QUIGG. I think beginning April 1 the procurement practices as mandated by law will be changed somewhat. At the time that the exchange agreements were entered into it seemed to be the best possible way for moving rapidly into automation of the Office. I can remember myself what a terrible state the trademark search files were in a few years ago. The sooner we can get to a place where we are searching with a complete file, and this applies to

trademarks as well as patents, the better quality product we are going to be able to produce. So this was the background for the decision to go the exchange route.

Mr. KASTENMEIER. And these exchange agreements enabled you to more expeditiously reequip your office?

Mr. QUIGG. It was in effect a purchase of time.

Mr. KASTENMEIER. Doubtless we will want to proceed to ask you further questions on that score.

Mr. QUIGG. I think, Mr. Chairman, I would ask Mr. Huther to address your questions in that connection because he has been eminently involved in that particular aspect all the way through.

Mr. KASTENMEIER. I gather Mr. Brooks, who regrettably cannot be here today, is concerned that this is not a regular procurement statutorily authorized procedure and that it is more expensive and does not conform to normal procurement practices. However, as I say, we will pursue the matter by letter, or perhaps Mr. Brooks will want to pursue it himself. But I do take note of the fact that that has been made an issue.

The second question on going into a new automated system is public access to the public records of the Patent and Trademark Office. My sparse understanding is that for trademarks you will be innovating a system, if you have not already done so, which will have an access charge to terminal points on an hourly basis or some other basis. While trademarks are not as numerous in terms of the overall business of the office, that is of concern to some also because it clearly sets a precedent for employing similar charges for access ultimately to patent users. The question is, has the office analyzed this from not only a cost-benefit point of view as far as operations of the office goes, but also as to whether there are statutory or constitutional impediments in terms of making such charges for what is really public information and which has been more historically accessible without such costs?

Mr. QUIGG. We have investigated this to some extent, and it is our belief that there is no statutory provision nor constitutional provision which would prevent such charges.

Mr. KASTENMEIER. But you would concede there is a policy question.

Mr. QUIGG. Policy questions, yes. I might preface my remarks by saying no decision has been made in this connection as yet. We did propose to the users of the system that in order to serve everybody across the United States who might want to drop into the Patent and Trademark Office and use the trademark or the patent system, that we provide a certain number of search hours a year that would be free of charge. This should cover the incidental things that inventors might want to do. Beyond that, we have a group of local users who are working for clients outside of this area. They are earning money by the use of the system, and it was our feeling that a user fee would be appropriate for that use in excess of the free hours provided.

We still are awaiting some determination by the users as to what their preference would be, whether they would like to go that way or go the direction of having all fees raised so as to subsidize the use of those terminals by the local people. This still is to be determined.

Mr. KASTENMEIER. I appreciate that. Doubtless this will be an issue for the subcommittee, and we will be in further touch with you. As I say, I think at the bare minimum it is a policy issue. I cannot say the committee has arrived at a position with respect to those practices, but we will clearly want to hear from others. We do regard this as one of the important crossroads to be reached in terms of the effects of automation and a larger, more efficient office.

In any event, I want to thank you for your appearance here this morning, Mr. Quigg. We will expect to be in touch with you and hopefully you will be appearing before us very likely as the confirmed Commissioner. We wish you the very best in that connection, Mr. Commissioner.

Mr. QUIGG. Thank you very much.

[The statement of Mr. Quigg follows:]

STATEMENT OF

DONALD J. QUIGG

ACTING 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

MARCH 21, 1985

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before your Subcommittee today. My prepared statement addresses three topics: (1) a review of the status of our programs to upgrade the U.S. Patent and Trademark Office to improve its service to industry and inventors; (2) a summary of our activities affecting the protection of patents and trademarks internationally; and (3) an outline of our legislative activities.

Three years ago we reported to you that the Patent and Trademark Office was not serving the needs of inventors and industry adequately. Since then the Administration has made a commitment to turn things around at the Patent and Trademark Office through an aggressive three-point plan:

- To reduce the average time it takes to get a patent to 18 months by 1987 (Plan 18/87);

- To register trademarks in 13 months, with an opinion on registrability being given an applicant in three months by the end of 1985 (Plan 3/13); and

- To take aggressive steps toward automation of the Office by 1990.

The key to achieving these goals was to increase user fees to realistic levels. With this Subcommittee's support, this was accomplished with the enactment of Public Law 97-247 in August 1982. This legislation not only increased the fees, it also authorized the Office to use these fees together with appropriated monies for the three-year period covering fiscal years 1983 through 1985. Our legislative program for this Congress includes a measure, about which I will comment later, to authorize the Patent and Trademark Office programs for the three-year period from FY 1986 through FY 1988.

P.L. 97-247 further provided that the statutory patent fees can be adjusted administratively every three years to take into account any inflation that may have occurred. We are planning to publish a Notice of Proposed Rulemaking in the Federal Register by the end of the month in order to adjust all of our fees by October 1, 1985. Statutory patent fees will be increased by 11.5%. This increase represents the change in the Consumer Price Index for the past three years. Trademark and service fees will be adjusted to recover operating costs for the 1986-1988 cycle.

Our FY 85 program level is $202,267,000 which is comprised of an appropriation of $101,631,000 and projected fee receipts of $100,636,000. However, the Deficit Reduction Act of 1984 reduced this amount by $1,472,000. We are in the process of determining how we could best absorb this reduction. We are authorized 3,438 positions in the PTO for this year.

The 1986 program level request for the Patent and Trademark Office is $219,236,000, an increase of $16,969,000 over the program level for 1985. With projected offsetting fee receipts authorized by P.L. 97-247 of $118,504,000, and $15,993,000 of accumulated excess patent and service fees from the period 1983 through 1985, the 1986 appropriation request represents less than 39% of our operating costs, or $84,739,000. This is a net decrease of $16,892,000 or 17% when compared to the 1985 appropriation level. The 1986 program level calls for 3,408 positions or a decrease of 30 positions from 1985.

Plan 18/87 in Patents

We ended the growth in the backlog of pending patent applications in FY 1984 and are on schedule in our plans to reduce the time it takes to get a patent to 18 months by 1987. In FY 1984, we received 109,539 patent applications and disposed of or completed work on 113,300. Production units, a measure which we regard as a truer indicator of the work performed by the Patent Examining Corps, reached 115,778 in FY 1984. Production units are an average of the number of first actions or first opinions on patentability (of which there were 118,256 in FY 1984) and the number of disposals.

The average pendency - the time it takes from filing to either grant or abandonment - was 25.0 months at the end of FY 1984 and is currently 24.6 months.

For FY 1985, we expect to receive 107,000 patent applications, although we can receive as many as 109,500 and still meet our pendency targets. We plan to produce 122,000 production units comprised of 125,400 first actions and 118,600 disposals. We expect to reach a pendency of 23.2 months by the end of this fiscal year.

We have hired 660 examiners over the past three years and plan to hire an additional 200 examiners this year. This will bring our total professional examining staff to over 1500. Hiring next year will be significantly reduced so that our production will match the number of new applications once we achieve our 18-month goal in 1987.

Plan 3/13 in Trademarks

Our second commitment is to give first opinions on the registrability of trademarks in three months and to finally dispose of them in 13 months in 1985. I am pleased to say that we are on target and will achieve these goals this year.

In FY 1984, 61,480 trademark applications were filed and 82,130 disposals were achieved, including 45,475 registrations. This year we expect to receive 62,500 trademark applications. Through a combination of increased staff and the use of overtime, we will, as I indicated, be rendering first actions in three months and finally disposing of trademark applications in 13 months by the end of this year. To

reach these goals, we expect to produce 80,300 disposals and 64,600 registrations.

We have achieved a record high 105 lawyers who examine our trademark applications. They are working in eight divisions or "law offices." We have already initiated an effort to balance the number of trademark personnel with projected filings in order to maintain the pendency goal. A pilot paralegal program will be established to assist in the trademark examining function. The eight paralegal positions for this program will replace an equal number of attritions of trademark examiners.

Automating the Patent and Trademark Office

In the trademark area, the main automation effort is expected to be completed this year. "T-Search," the system that we will use for searching and retrieving information about registrations and applications, is substantially complete. We began using the system on a limited basis for searching and retrieving the word portions of trademarks in July 1984.

The part of the system for searching the design components of trademarks is in the final stages of testing. We anticipate that we will begin automated searching of design marks by the beginning of FY 1986.

On April 2, 1985, we will publish the first Official Gazette produced through in-house photocomposition capability.

Still under consideration is the fee that is to be charged the public for access to the automated trademark systems. We are meeting with the various concerned groups to find an accept-

able approach to underwriting the costs of providing such access.

In the patent area, the PTO selected Planning Research Corporation (PRC) as the systems contractor to develop and install the "Automated Patent Search System (APS)." PRC is being supported by Chemical Abstracts Service, a non-profit arm of the American Chemical Society. Chemical Abstracts brings to the partnership a sophisticated foundation in search software development. The contract costs are expected to be $13 million this fiscal year and are expected to total $300 million over the next 20 years, if the PTO exercises all of its options.

Initial testing of the system is expected to begin in July 1985 in Group 220, one of the 15 patent examining groups. About one year later, the system will begin to be gradually extended to the other examining groups. Subsequently, many of the services provided to the PTO employees will be offered to other users.

Again last year, our Office participated in a trilateral conference with the European and Japanese Patent Offices. I am pleased to report that we reached agreement on many important issues including the general standards for exchanging data in machine-readable form. We expect to start exchanging such data by the middle of next year.

The APS system will have a number of improvements that are essential to the continued effective operation of the PTO. Perhaps the most important of these is assurance of the completeness of the search files. File integrity will greatly improve the quality of the patents we issue and the trade-

marks we register. This is an important step in achieving our goal of providing the public with a first-class Patent and Trademark Office.

Legislative Activities

On February 8, 1985, Secretary Baldrige forwarded to the Congress proposed authorizing legislation for the Patent and Trademark Office for fiscal years 1986-1988. Reduced patent fees for small businesses, nonprofit organizations and independent inventors as provided for in P.L. 97-247, would be continued. Fees collected by the Patent and Trademark Office and all appropriations provided to it would remain available without any fiscal year limitation, as also provided in P.L. 97-247.

On February 13, 1985, Secretary Baldrige forwarded to the Congress legislation to implement Chapter II of the Patent Cooperation Treaty (PCT). This legislation, if enacted, would authorize the United States to serve both as an International Preliminary Examination Authority and an elected Office under the Treaty.

By virtue of United States adherence to Chapter II, applicants will be able to use an International Preliminary Examination Report in deciding whether to proceed with foreign filings. Adherence to Chapter II will also provide inventors additional time for the payment of fees before the application enters the national application stage in the various elected national offices.

The Department of Commerce is attempting to develop legislation for simplifying and improving the patent and trademark

laws. Under study are measures to shorten the response period for trademark applicants, to eliminate the requirement to verify petitions to cancel a mark, and to amend the plant patent law to protect plant parts. With respect to the proposal to protect plant parts, many commercially valuable plants are bred mainly for their parts; e.g., fruits, cut flowers or foliage. Protection is now available only for the entire plant, not for these parts. Patented plants can be lawfully acquired in the United States, then taken abroad for reproduction. Since protection for plants is often not available in foreign countries, plants can be propagated overseas and plant parts can be imported into the United States without any compensation for the patent owner.

Also under study is legislation for protecting original ornamental designs. Under consideration is legislation patterned after the Design Protection Act, H.R. 2985, introduced in the 98th Congress by Mr. Moorhead.

Several laws enacted during the 98th Congress require implementing regulations and procedures for them to be administered. The Patent and Trademark Office has taken the needed steps.

Guidelines to implement Title II of P.L. 98-417, the "Drug Price Competition and Patent Term Restoration Act of 1984," were published in the Office's Official Gazette on October 9, 1984. We plan to publish regulations by late summer. To date, 15 applications for patent term extensions have been received. Of these, 11 have been sent to the Secretary of Health and Human Services. The remaining 4 are still under review in the Patent and Trademark Office.

We are also involved, as this Subcommittee knows, with the implementation of the "Semiconductor Chip Act of 1984." Section 902 of this law authorizes the President to proclaim eligibility for protection under this law for a foreign mask work owner if that owner's home country provides equal or adequate protection for mask works of U.S. origin. A request for the President to issue such a proclamation has just been received from the United Kingdom, and is being considered.

Section 914 of the same law authorizes the Secretary of Commerce to determine on an interim basis the eligibility for protection of a mask work of foreign origin. A petition for protection may be made by a party or person as well as by a government, and such a petition has been received from the Electronic Industries Association of Japan. On the basis of information recently received from the Government of Japan, we are planning to request comments and hold a hearing on this petition in the near future.

The Federal Register of March 7, 1985, contains final rules of practice needed to put into effect various requirements of P.L. 98-622, the "Patent Law Amendments Act of 1984," enacted on November 8, 1984. These rules deal with such matters as the definition of prior art in determining the novelty of an invention developed in a corporate environment, the definition of joint inventorship, the examination and issuance of Statutory Invention Registrations, and various provisions relating to applications filed under the Patent Cooperation Treaty. P.L. 98-622 also permitted us to merge our Board of Appeals and Board of Patent Interferences and to streamline our patent interference practices. We published regulations to implement the changes in patent interference practice in the Federal Register of December 12, 1984.

International Activities

We have been involved in a number of activities affecting the protection of patents and trademarks internationally. First and foremost has been the eleven-year effort to revise the Paris Convention for the Protection of Industrial Property. The Fourth Session of the Diplomatic Conference, held in Geneva, Switzerland, from February 27 to March 23, 1984, was again attended by a strong U.S. delegation. Not only did we have outstanding industry advisors with the delegation at all times, we were fortunate enough to have Mr. Kindness from the Subcommittee and Joe Wolfe, Assistant Minority Counsel for this Subcommitee, as advisors.

As in the previous Session of the Conference, the United States delegation approached the Fourth Session determined to reach an acceptable compromise solution to the developing countries' demands for the right to grant compulsory exclusive licenses. Although an acceptable compromise had been developed during the Third Session of the Conference in 1983, it could not be agreed upon during the Fourth Session. Similarly, no agreement could be reached among the three groups of countries - developed, developing and socialist - on other important topics of the revision efforts. These include a new Article 10quater concerning protection for geographical indications and the assimilation of inventors' certificates to patents in Article 1.

In light of this stalemate, the Conference recommended that the Assembly of the Paris Union convene a Fifth Session of the Conference only after prospects for positive results were found. It also requested that the Assembly set up machinery for consultations designed to achieve these results.

A "Consultative Meeting" has been set for June in Geneva. I have just returned from a meeting in Munich, Germany, at which the developed countries reviewed the position they will take at the "Consultative Meeting." I can report that the developed countries have reaffirmed their previous position on Articles 1, 5A and 10quater developed during the last Session of the Diplomatic Conference.

Bilateral cooperation between the Patent and Trademark office and the European Patent Office has also continued in connection with the Patent Cooperation Treaty. I mentioned that we have determined that it would be in the interests of U.S. industry if the United States withdrew its reservation on Chapter II of the Patent Cooperation Treaty. To this end, the President requested the Senate's advice and consent to that action on July 27, 1984. In order that the benefits of Chapter II can be made available to U.S. industry as soon as possible, we requested that the European Patent Office act as an International Preliminary Examining Authority for U.S. applicants until we can perform those functions. The European Patent Office has agreed to do so and each year it will examine up to 500 applications for which it also conducted the international search. By 1987, the Patent and Trademark Office will be in a position to shoulder this responsibility, assuming, of course, that Congress agrees to enact the legislation submitted by Secretary Baldrige.

The Office has actively worked with other countries to improve intellectual property protection available to U.S. nationals worldwide. In the past year, we have provided training and technical assistance to eleven developing countries and the African Intellectual Property Organization. Beginning in July of this year, we are instituting a trial program to train officials from developing countries who are working in the intellectual property field in an attempt to raise their awareness of the need for effective protection of intellectual property and to give them the necessary expertise to bring this about.

Finally, we are very pleased that the People's Republic of China has adopted a patent law which will enter into force on April 1, 1985. We have helped China establish documentation centers in Beijing and six other cities and have provided them with collections of United States patents to effectively implement this law.

Mr. KASTENMEIER. Next the chair would like to greet a very familiar face, Mr. Donald Banner. Since 1980 Mr. Banner has been president of the Intellectual Property Owners, Inc. He has previously served as Commissioner of Patents himself, from 1978 to 1979, and he is partner in the law firm of Banner, Birch, McKie & Beckett. He is also director of the Intellectual Property Division of the graduate program at John Marshall Law School.

Mr. Banner, you are, of course, welcome before this committee, and you may proceed as you wish.

TESTIMONY OF DONALD W. BANNER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC.

Mr. BANNER. Thank you very much, Mr. Chairman. We at IPO would like to express our gratitude to you and the other members of this committee for the opportunity to very briefly present our views to you. We have a prepared statement, and if it is all right with you, I would like to just hit some high points.

Mr. KASTENMEIER. Without objection, your statement in its entirety will appear in the record.

Mr. BANNER. Thank you very much, Mr. Chairman.

I understand we are in some tight time constraints, so I will skip around a little bit and go quickly. Of course, if you have any questions, please feel free to ask them.

I will first of all point out that we are concerned about this decrease of $16.9 million, because we think that this could very well impair the quality and timeliness of the work performed. The Office's present budget also presents some very fundamental questions of policy, which you have already addressed.

We very well recall when the fees were increased. It was our understanding that was to give us urgently needed resources, as the then Commissioner said, to improve the Patent and Trademark Office. We think that the cuts that we have here are quite inconsistent with providing urgently needed resources. For example, we are going to take $16 million that we have accumulated in the past few years in excess fees and reduce the public appropriation by that amount. That is very interesting. Because if you look at the figure for how much the public appropriation will have to be, for the following year, it will have to be increased over 30 percent to bring it up to a level at which the current programs of the Patent and Trademark Office are possible. We don't think that is very realistic.

We think that the budget document itself has some very interesting points that merit comment. The number of pending patent appeals is going to go up 30 percent; the number of trademark pending contested cases is going to go up 64 percent. These are figures from the budget document itself.

We notice that the payment for administrative services, that is, for taking care of things inside the Office, is going to be cut.

IPO conducted a survey about a year and a half ago of the users of the system, and 34 percent said that the ability of the Office to control its own papers was poor. Yet, we are to cut that further.

One of the important things that is totally overlooked is the quality issue. The Department of Commerce has stated three goals:

The 18-month patent examining goal, the trademark registration goal, and automating the Patent and Trademark Office. We are in favor of all those things. But there was a very interesting thing in our survey. The most important thing to the users of the system isn't even included in those three, and that is to improve the quality of patent examinations.

There are three things you have to do to examine a patent application. One, you have to have a library that is complete; two, you have to have a trained examiner who can look at the library and understand what he is looking at; and three, he has to have enough time to spend looking at the library and comparing it with the application that is in front of him. We are spending a lot of time and money, hundreds of millions possibly, in fixing up the library, but those other two important legs of the three-legged stool seem to be overlooked, and we all know what happens when you neglect one or two legs of the three-legged stool.

Interestingly enough, in that survey I told you about that IPO conducted, the shortening of pendency of patent applications was ranked by users of the system sixth in priority out of a possible seven. Of course the top two had to do with fixing up the quality of the patent searching system.

It is a very interesting point that only 17 percent of the people that we asked with respect to confidence in the patent system said it was strong. There is something wrong there.

Mr. KASTENMEIER. If I may interrupt, I am interested in this analysis. You further go on to say that the number of patents in terms of applications has increased; the pendency has decreased; the perception of the patent is that the patents may be weaker. As you know, Mr. Banner, we have mightily tried to strengthen the American patent through a series of statutory devices designed to strengthen the American patent. Yet, you make a very compelling case that even though we want to achieve expedition and efficiency we may be sacrificing the ultimate quality of the patent itself in the process.

Mr. BANNER. There is more to be done, sir. We've made some very substantial progress. The subcommittee is primarily responsible for a great deal of that. We aren't finished with this job at all, however. This isn't the time to start relaxing; we've got a lot to do.

In this budget, for example, there isn't anything we can see that improves the quality of patent examination. As a matter of fact, we think the time involved per examiner on an application is going to decrease, not increase.

The OTA study, to which I make reference in my statement, noted that in 1960, 81.4 patent applications were issued or abandoned per patent examiner; in 1981 the figure was 101.8.

There is the matter of patents missing. We feel that the patent file should be kept in excellent order, because otherwise with the 25 million documents there you don't know what you are looking at after a while if you don't keep it up to date. It has to be kept up to date even though in the future we are going to automate it. There is just no other way we know about to do it.

Going to the issue of libraries, there are two libraries in the Patent and Trademark Office, the trademark library and the

patent library. The present budget eliminates the trademark library; there is no money, no people, no nothing.

We also noticed a rather criptic message in the June 14, 1984 Federal Register that says that after we get the patent records automated they are going to charge for that, too. We don't think that is a very wise idea. We think very strongly that the patent and trademark libraries benefit the public at large. This has been the traditional approach we have used all the years that we have had such systems in the United States. We don't think there should be change through some kind of a back-door approach.

I pointed out reasons why it is important to have this access. One of the things I want to mention particularly with respect to patents. The patent library is there, by the way, because of the constitutional reason for the patent system, to promote the progress of the useful arts. That library is not only used for patent applicants; people do go there to see if they can get a patent on something; the public does use it for that. I have personally taken engineers there many times over the years to look at what the art was, what the science was in a certain area, because they wanted to move into it and I wanted them to see what the background was. This is what it is there for. When one wants to put a product on the market, how do you know if you are infringing somebody's patent? That is where you go to find out. That has nothing to do with filing a patent application. It may also incidentally relate to that, but that is not what an infringement search is.

We understood that the Congress felt, as we do, that those search rooms should be public. We have quoted from the hearings from the last time we went through this issue. We want to particularly stress that we think maintaining the present level of appropriations for the Office is very important. We pointed out many reasons why this must be. There is a philosophy which says the entire cost of operating the Office should be paid by users. I have already pointed out some reasons why we don't think that makes any sense.

But we think there are some other fundamental issues to which we would invite your attention. Are we going to have the Copyright Office charge for access to its files? Are they going to be fee-oriented as well? Are we going to have the Library of Congress charge fees? Can people not get in there until they pay fees, pay some entrance fee to go in the door? What about the Federal courts? Is the Federal court system one for which those in civil litigation should pay the entire cost? We think that is rather unwise.

I think I have used up all the time that I have. I thank you for the opportunity to discuss it. We have suggested some ways in which the funds could be used to keep the Patent and Trademark Office improving its quality.

We thank you for this opportunity to be here today.

Mr. KASTENMEIER. We thank you for so well summarizing your position and that of the Intellectual Property Owners organization.

I take it that when Commissioner Quigg says the program level will increase from $202 million to $219 million you feel that that is not adequate, that the decrease of $16.9 million in terms of appropriation should not be reduced but should be put back into the program so that the level of spending would be $236 million. Is that

your point of view, that at least the appropriations level ought to remain level?

Mr. BANNER. Exactly. That is our view, yes, sir.

Mr. KASTENMEIER. We heard, of course, that the Patent and Trademark Office had not made a final decision with respect to potentially charging access fees with reference to trademarks and possibly for patents. However, they are considering arrangements wherein there would be free time accorded individuals and beyond a certain point there would be an access fee charged. Do you feel there is any area of accommodation there which would be agreeable to patent or trademark attorneys or others interested in patents and trademarks?

Mr. BANNER. Mr. Chairman, I don't know how that could work; I don't know how it would give free time to you or to your organization and to some other group. How would one do that? For example, if you had a multidivision company, entirely different products, which is not uncommon in the American scene, how do you split this up? Do you divide it by divisions? Do you divide it by product line? Do you divide it by people? I don't know how you would do that. How would you make free time available to go to the Library of Congress? Who would go? How do you do that?

Maybe there is a way to do it. I'm not saying it is impossible; I just don't understand it. I don't think it is a very sound approach as I understand it.

Mr. KASTENMEIER. Would you agree that it is a policy question? Currently it would not be a violation of a constitutional or statutory restriction. We are talking about a policy matter only in terms of access?

Mr. BANNER. I think it is a policy matter. I don't know that there is a constitutional involvement. As I said, the reason for the patent system in the Constitution is to promote the progress of the useful arts, and that suggests to me that this technical information should be widely dispersed among the people of the United States. I don't see any other reason to do it.

Mr. KASTENMEIER. I would like to yield to my colleague, the gentleman from Ohio.

Mr. DEWINE. Thank you.

Being new in this area and not having all the benefit of the years of testimony that this committee has heard, I am going to ask a real basic question and I would like you to comment on it if you could. How in the world do you get to a situation where you have so many of the references that are either lost or misplaced when you do a search? How does that mechanically happen?

Mr. BANNER. It mechanically happens in a variety of ways. As I said in my testimony and my paper here, there are over 100,000 different classifications. When people take the physical patent out of those places, one, while it is out somebody else can't find it there; two, if it is placed in the wrong place when it is returned because of poor clerical help, nobody is going to find it there probably for years; three, if you don't recheck the files to physically determine what should be there by comparing the paper patents with the list of what should be there, if you don't do that, you are going to have troubles.

What one does, for example, in an infringement search, if it is going to be very carefully done, is you take the list of all the patents that are supposed to be in this particular classification, and as you search you look to see if that patent is there. It can be done, but it is not done by the Patent and Trademark Office and has not been done for some time because of the fact that they had inadequate funding.

Mr. DEWINE. Are some of these actually permanently lost? Do people just actually walk off with them?

Mr. BANNER. Sometimes people walk off with them. There is a provision in the public search room for checking to see if people steal them.

Mr. DEWINE. I wondered what the security was.

Mr. BANNER. How effective it is? I don't suppose anybody knows. I suggest to you, sir, that the matter of misfiling or not getting it back in time is equally important.

Mr. KASTENMEIER. I might suggest to my colleague there is an inspector general's report affecting security in the Patent and Trademark Office, if you would like to avail yourself of it. The report that gives the detailed assessment of the status of the Patent and Trademark Office with respect to questions of security.

Mr. DEWINE. I just have one more question, Mr. Chairman.

You mentioned that the people you represent don't list as a high priority the pendency. I think you said sixth out of the seven on the list. Irrespective of that comment, would you agree with the previous witness that 18 months is the optimum? Is that the goal? Is that a correct goal? I know it is the goal, but is that what the goal should be?

Mr. BANNER. If I had no other considerations 18 months would be a good idea; it would help a lot of people. As a number I think it is a reasonable number, but if I have to subordinate quality to the achievement of that number, then I don't think it is reasonable. I would rather have it take longer and do a better job.

Mr. DEWINE. Could you briefly comment on what effect it has on the public as far as a public policy question. Maybe not as a parochial interest, but a public policy issue about two things. One, the pendency: Does it make any difference how long it takes, whatever our arbitrary number is? Two, about the validity or the quality of the work that is done.

Mr. BANNER. Very obviously, if you are a patent examiner and you have an application in front of you and you want to make everybody happy by doing something and getting it out of the Office, the easiest thing you can do is issue it. It doesn't get appealed, it doesn't get anything. It just flies out there into the big world. I don't say that is done; I'm just talking about how quickly it can be disposed of, how quickly we can get these disposal numbers up. What would happen if you did that? Out there in the economy of the United States for the next 17 years would be a Government grant by which the owner could exclude others from making, using or selling that subject matter for that period of time.

I don't think it is a good idea, and neither do the members of IPO, to have invalid patents. I don't think it is really good for the person who owns the patent, because he makes false assumptions; I certainly don't think it is good for the economy to be cluttered up

by patents which shouldn't be there, which don't meet the statutory test set by Congress. These are balanced items.

Mr. DEWINE. What about the time question? Should the public be concerned about that?

Mr. BANNER. The time question can be important, because many people need to get the patent issued in a hurry, particularly smaller manufacturers, smaller individuals. It is important because it does create prior art effect with respect to foreign people, that is, prior art to foreign people in foreign countries, particularly after it issues in the United States, not during its pendency. So there are very important reasons why it should be there rapidly, if 18 months is rapid in that sense. It is important to do that. I agree with that. But it should not be done at the expense of what is the real thrust of the patent system, that is to say, issuing patents that we have reasonable confidence are valid.

Mr. DEWINE. Thank you, Mr. Chairman.

Mr. KASTENMEIER. Thank you, Mr. Banner, for your presentation this morning. As usual it is excellent. We always enjoy hearing from you.

Mr. BANNER. Thank you.

[The statement of Mr. Banner follows:]

IPO INTELLECTUAL PROPERTY OWNERS, INC.

STATEMENT ON BEHALF OF INTELLECTUAL PROPERTY OWNERS, INC.

BY DONALD W. BANNER, PRESIDENT

BEFORE SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE

ADMINISTRATION OF JUSTICE

HOUSE COMMITTEE ON THE JUDICIARY

MARCH 21, 1985, 10:30 A.M.

I am appearing here today on behalf of Intellectual Property Owners, Inc. (IPO). We appreciate this opportunity to present IPO's views on the Patent and Trademark Office and the legislation to authorize appropriations for the Office.

IPO is a nonprofit association whose members own patents, trademarks, and copyrights. Our members include large corporations, small businesses, universities, and individuals. They are responsible for a significant portion of the research and development conducted in the United States, and pay a significant portion of the fees which are collected by the Patent and Trademark Office.

IPO therefore is interested in having the Office operate as effectively as possible, to provide maximum incentives for innovation and investment. At the outset I want to stress that the Office has a dedicated and capable staff of employees who have worked diligently over the years to improve the Office's operations. We are grateful for their efforts. They have accomplished a great deal while often working with inadequate resources.

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INTRODUCTION

H.R. , the bill to authorize appropriations for the Patent and Trademark Office, would give authority for appropriations of $84,739,000 for Fiscal Year 1986. This is a decrease of $16.9 million from the Office's 1985 appropriations of $101.6 million. We believe this proposed $16.9 million cut in public support for the Office is a false economy. It will impair the quality and timeliness of the work performed by the Office, thereby weakening the encouragement for innovation and investment which the patent and trademark systems are supposed to give.

The proposed cut is unwise, first, because it will prevent the Office from doing its work in a timely fashion.

Second, and even more important, it will adversely affect the quality of examination of patent applications.

Third, the Office's plan to eliminate appropriated funds for operating the patent and trademark search libraries is contrary to the intent of the 1980 and 1982 fee laws and raises fundamental questions about the government's policy on making official records accessible to members of the public.

I would like to explain each of these points in more detail.

BASIS FOR VIEWS EXPRESSED

Our conclusions about the Patent and Trademark Office budget are based upon our analysis of the 83 page budget document which is dated January 1985 and entitled "1986 Budget Submission to the Congress".

Page numbers in our statement refer to pages of that document, and references in our statement to the "budget" refer to that document.

One of our main sources of information about the views of IPO members is a survey which IPO conducted in the fall of 1983. The survey posed 31 questions about operations at the Patent and Trademark Office. The survey was mailed to patent owners throughout the United States. The questions covered general and specific matters concerning the Office's priorities, patent examining, other patent-related services, and appellate and legal affairs. One hundred forty-two companies and individuals responded to the survey. Most of the respondents were large and medium size corporations.

Our statement also cites two studies of the Patent and Trademark Office that have been conducted by other organizations: (1) a 1984 report by the Congressional Office of Technology Assessment entitled "Patents and the Commercialization of New Technology"; and (2) a 1979 report by the Advisory Committee on Industrial Innovation of the Carter Administration's domestic policy review.

In addition, we cite an interview of former Commissioner Gerald J. Mossinghoff. Mr. Mossinghoff was interviewed by the Bureau of National Affairs, Inc. The interview is published in the Patent, Trademark, and Copyright Journal of March 7, 1985.

BACKGROUND RE 1980 AND 1982 FEE LAWS

We believe the proposed $16.9 million cut is inconsistent with what Congress intended when it enacted the 1980 and 1982 Patent and Trademark Office fee laws, public laws 96-517 and 97-247. The history of those laws indicates that Congress intended for certain

functions of the Office to continue to be supported by appropriated funds.

It was envisioned that the revenue raised by higher fees would be used to make major improvements in the Office's operations, which for many years had been under-funded and, many observers felt, neglected. When former Commissioner Mossinghoff testified before this subcommittee in March 1982, he said a principal purpose of the 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..."

It was planned that the share of Office expenses supported by appropriations would decrease gradually as the new fees for maintaining patents in force began to produce revenue, and that there would always be appropriations to support some functions of the Office. The Administration is proposing to reduce the level of public support for the Office faster and further than was envisioned.

The Administration is proposing to use extra fee income to reduce the level of appropriations rather than to meet the urgent needs of the Office. The Appropriated funds are being reduced by using $16 million of "excess" fees that have accumulated in the three years of operation under public law 97-247. The budget does not acknowledge that the higher than estimated fee income over the past three years has been caused by higher than estimated demands for services from the public.

Moreover, if all of the fee reserves accumulated over the last three years are used in 1986, it will be necessary in 1987 either to increase the public support for the Office or to make drastic cuts in

PTO programs, because there will not be another $16 million of fee reserves to draw on in the 1987. It is difficult for us to imagine the level of public support being increased for 1987 if it is reduced for 1986.

TIMELINESS OF THE OFFICE'S WORK

The proposed level of public support of $84.7 million for 1986 clearly does not provide enough funds to ensure timeliness of all of the services provided by the Office.

To begin with, the budget's projections for the number of patent applications which will be filed in 1985 and 1986 are unrealistically low (p. 21). The budget predicts 107,000 applications filed in each year, even though the number filed in 1984 was 109,539 and the recent trend in filings seems to be upward. Substantial extra money will be needed just to handle the extra applications which will be filed.

In addition, the budget reveals that the delays in deciding appeals from decisions made by the Office's patent and trademark examiners, which already are at unacceptable levels, will increase sharply during 1986. In the case of patent processing, the budget states that one of the Office's objectives is to "provide prompt and efficient services to the public, including the adjudication of motions before PTO's Board of Patent Appeals and Interferences" (p. 20). The numbers in the budget show, however, that patent appeals awaiting a decision will increase to 7,700 at the end of 1986, up from about 5,900 at the end of 1984 (p. 21). That is a 30 percent increase.

In the case of trademark processing, the budget says an objective is to maintain the "achievements of 1984 and 1985", including "the reduced Trademark Trial and Appeal Board adjudication period of 12 weeks" (p. 32). The numbers show, however, that contested cases before the Trademark Trial and Appeal Board will rise from over 4,300 in 1984 to over 7,100 in 1986 (p. 33). That is a 64 percent increase.

The budget also reveals that a $697,000 cut is being made in the Office's administrative services as a part of what is called a 10 percent across the board "administrative cost savings" (p. 3). The "Administrative Services" item in the Office's budget includes such services as maintaining official records for inspection by the public, performing the initial clerical screening of patent and trademark applications, operating the internal mail and messenger system, providing personnel services, and the like. The 10 percent cut appears to be entirely arbitrary.

At that time of IPO's 1983 survey of patent owners, their opinion of the level of administrative services provided by the Office was not good. Of those expressing an opinion about the Office's internal mail delivery system, virtually all said it was poor or fair. With regard to the Office's ability to locate application papers and other records, 34 percent said poor and 52 percent said fair.

It is true that improvements have been made in administrative services more recently. If the proposed cuts are made, however, it seems to us certain that we will be back to the traditional level of mediocrity in the Office's administrative services.

It appears to us that the Office has no flexibility to shift funds to administrative services from other areas. When asked by the House Appropriations Subcommittee on March 11, acting Commissioner Quigg confirmed that the Office is being expected to "absorb" the 3 1/2 percent pay increase received by government employees this year. This will cost the Office several million dollars. This hidden budget cut for 1985, if the Appropriations Committee goes along with it, and we hope they will not, is likely to adversely affect the Office's services.

We are in favor of improving the productivity of government agencies, but we doubt that any major productivity improvements can be made at the Office unless it would be as a part of government-wide changes in management and personnel practices. For years budget cuts at the Office have been justified on the ground that productivity can be improved, but the result almost always has been decreased service.

IMPROVED QUALITY OF PATENT EXAMINING

During his testimony before the House Appropriations Subcommittee, Acting Commissioner Quigg reiterated the commitment of the Department of Commerce to continuing its efforts to achieve the three major goals that it has announced. Commissioner Quigg stated as follows:

> "The Department is committed to continuing the effort to make the PTO a first-class operation in all respects, based on the following three-point program:
>
> "o To reduce the average time it takes to get a patent to 18 months by FY 1987 (Plan 18/87).

"o To register trademarks in 13 months, with a first opinion on registrability given in three months (Plan 3/13).

"o To automate the Patent and Trademark Office by 1990."

Although we agree with these objectives of reducing "pendency" time and automating the Office, the item which we believe should be the Office's single highest priority is not even in the 3-point program. The highest priority should be to improve the quality of patent examining.

Examining does little good if the examiners fail to find the most relevant earlier technology when they conduct searches, or fail to evaluate patent applications carefully for compliance with the applicable laws and regulations.

I like to make an analogy with the support needed to hold up a three-legged stool. The three legs needed to hold up quality of patent examining are: 1) a complete and accessible search file of prior patents and technical literature; 2) a corps of capable and well trained examiners; and 3) adequate time for the examiner to examine each case. If any one of the three legs is too weak, the stool will collapse. The Patent and Trademark Office with its program for automating the patent search file by 1990 is strengthening only one leg -- and it will not be stronger for at least 5 more years. The other legs should not be ignored while tens of millions are being spent to strengthen one leg.

IPO's 1983 survey of patent owners elicited several opinions about the quality of patent examining and the Office's priorities. The survey asked patent owners to rank in priority seven possible improvements in PTO operations.

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IPO's 1983 survey of patent owners elicited several opinions about the quality of patent examining and the Office's priorities. The survey asked patent owners to rank in priority seven possible improvements in PTO operations.

It was surprising to some people that the item ranked highest was to improve the quality of searches made by examiners in paper search files. Ranked second was to improve quality of examination apart from searches. Automating search files placed third. Shortening the average pendency time of patent applications to 18 months was rated a lowly sixth out of seven.

The respondents also expressed a number of other opinions about patent examining.

They were asked, "What degree of confidence do you have that patents issued to you by the PTO are valid?" Sixty-eight percent said "moderate". Only 17 percent said "strong".

They were asked, "Would it be cost effective for the PTO to change the amount of time and money it spends examining the average patent application?" Forty-six percent said more time and money should be spent. Only one percent said less time and money should be spent.

The reliability of issued patents, of course, cannot be measured with any great precision. The Congress has taken several important steps in recent years to improve the reliability of patents and the public confidence in patents. This subcommittee should be commended for the attention it has paid to this topic. The improvements have been substantial. For example, the 1982 legislation giving exclusive jurisdiction of patent cases at the appellate level to the U.S. Court of Appeals for the Federal Circuit seems to be improving the uniformity and certainty of patent law. The legislation enacted in 1984 to improve various provisions of the patent code also was a major accomplishment. The 1980 legislation which established a

system for reexamining patents in the Patent and Trademark Office has been useful.

Nevertheless, the fact that a large number of patent owners in the fall of 1983 had only "moderate" confidence in the patents issued by the Patent and Trademark Office is cause for serious concern. We doubt that the level of confidence by patent owners has changed significantly since that time. If the companies and inventors in America who are inventing and investing in new technology do not have confidence that patents issued by the Office are reliable, the patent system cannot do its job effectively.

The Patent and Trademark Office's budget for 1986 is doing nothing to improve the quality of patent examining except for the long term project for automating the search files by 1990. In fact the Office's 1986 budget actually decreases the time available to patent examiners to examine applications. The budget proposes to cut 140 positions from patent processing. The explanation in the budget is as follows:

> "This staffing reduction is possible due to increased examiner productivity, which has emerged in the past 12 months as a result of both the enhanced awards program and unexpectedly high productivity from new examiners (p. 23).

This says to us that from now on the examiners are going to be spending fewer hours examining each application. Certainly it is a good management practice to give cash awards to employees for superior work. The Office for many years has given cash awards to examiners, and recently has expanded its awards program. But the awards are given almost exclusively for quantity of production. Awards for superior quality of work are virtually non-existent.

The OTA study reported, "...an increasing percentage of examiners are meeting or exceeding their production goals.... The practical effect of production goals is to increase the importance of the time factor in the examiner's work." According to the OTA study, in 1960, 81.4 patent applications were issued or abandoned per patent examiner; in 1981 that figure was 101.8.

The OTA report went on to say, "The system inherently awards shortcuts. ...The importance of production goals in the relations between the union and the management of the Office has tended to entrench the production goal system in the operation of the Office."

There is some evidence that over time it may have become easier to get a patent from the Patent and Trademark Office. In 1929 the Office apparently was issuing as patents approximately 50 percent of the patent applications which were filed. In the period from 1955 to 1964 the percentage issued was around 62 percent. In more recent years it has been around 67 percent. If the time spent on each application is reduced, will the percentage issued increase further?

The budget counts on the "increased examiner productivity", but we are skeptical of whether the Office has discovered any new ways for examiners to do their work significantly faster or smarter. Under a system in which examiners are constantly rewarded financially for quantity and are never rewarded for quality, quantity will continue to increase. There is almost no limit to how fast examiners can issue patents if enough shortcuts are taken. An examiner can complete the paperwork to issue a patent in 5 minutes. The 1979 domestic policy review study recommended increasing the time available to patent examiners for conducting searches.

The budget also reveals that the Office is cutting back on the amount of funds spent for periodicals and pamphlets used in examining. The budget says, "...periodicals and pamphlets are essential in the patent and trademark examination process." The budget reveals, however, that the Office has cut back by over one third the amount spent for periodicals this year and proposes a similar level of expenditures for 1986 (p. 83).

According to the published interview with former Commissioner Mossinghoff, the Office is having increasing difficulty in recruiting new examiners. The Office of Personnel Management is not allowing the Patent and Trademark Office to pay starting salaries to examiners as high as the Office feels it needs in order to attract capable examiners, even though OPM has authority to allow the higher salaries. We suggest that the Subcommittee might wish to look into this matter. The OTA study observed, "One key to achieving a high quality patent examiner staff is the ability to attract qualified individuals to become patent examiners. This has been impeded by a variety of factors, some generally applicable to the entire government and some unique to the patent examining operation."

In the interview Mr. Mossinghoff also said, "One of the real scandals of the Patent Office... is that 7 percent of our references that the examiners must look through are either missing or misfiled." We agree.

The paper search file cannot be allowed to deteriorate on the assumption that it will not be needed much longer. The paper search file cannot be scrapped instantly when the automated system is completed. Even if it could be, the Office will issue thousands of

invalid patents in the next five years if the paper search file is allowed to deteriorate further.

We believe the subject matter classification system for the manual paper search file is seriously in need of attention. The massive paper search file contains some 25,000,000 documents. They are broken down by subject matter by an intricate classification system of some 100,000 classes and subclasses.

If the classification system is not continually updated to keep pace with changing technology, the search file becomes unusable. When the automated system is available, the patent subject matter classification will still be needed. Reclassification is a task to which extra effort could be devoted if the size of the examining operation was not being reduced by 140 positions.

For all of these reasons, we urge that the size of the examining staff should not be cut back. If the objective is to create a first class Office, it makes no sense to reduce the size of the patent examining corps the very next year after an expansion program to increase the size of the examining corps has been completed.

PUBLIC ACCESS TO PATENT AND TRADEMARK INFORMATION

IPO is strongly in favor of automating the Office's patent and trademark search files. We believe that by adapting modern computer technology the Office can greatly improve the usefulness and reliability of the search files.

Unfortunately the Office is taking automation of the search files as an excuse to charge the public for access to information in the patent and trademark search libraries that has been available to

the public free of charge since the beginning of the federal patent system in 1790 and the federal trademark system in 1870.

The budget states that the new automated trademark search library will be totally supported by special user fees (p. 41). The Office has proposed fees of at least $40 per hour. The budget also calls for eliminating the trademark paper search file, for a savings of $322,000, although the Office apparently now has decided that problems encountered with the automated system have made it impossible to eliminate the paper search file any time soon. The budget gives no indication of where the funds will come from to support the paper trademark search file during 1986.

We are equally concerned about a notice published in the Federal Register on June 14, 1984, in which the Office announced a proposed policy of charging the public for access to U.S. patent records in the patent search library, after the patent records become automated a few years from now. We are not aware of any plans to charge for access to the paper patent search files in the meantime.

We are opposed to charging for access to public records in the patent and trademark search libraries at the Office. It is a traditional policy of government agencies to make official records available for inspection by the public at the agency's offices free of charge. Having patent and trademark records available to the public benefits the public at large.

Numerous federal agencies operate specialized libraries which are open to the public. Several agencies are now automating their records. We have not heard of other federal agencies charging the public a fee to inspect public records, whether in paper or automated

form. The Copyright Office, the agency with records most similar to those at the Patent and Trademark Office, does not charge for access to its automated system.

The legislative history of the Lanham Act shows that one of the main purposes of the federal trademark law is to protect the consuming public from confusion. A large number of searches that are conducted in the search room result in marks not being adopted, because a conflict is found to exist with marks already registered. The general public benefits from having businesses not adopt marks which later will cause confusion of consumers. By making it easier to check for conflicts when adopting new marks, the Lanham Act facilitates investment in new products which bear new marks.

For many years the Lanham Act has put everyone on notice of the existence of federally registered marks by operation of law. In addition, the Trademark Counterfeiting Act of 1984 now imposes criminal liability for counterfeiting of registered marks. By charging to inspect trademark records, we would be charging citizens for the privilege of inspecting records of trademarks they are expected to know about, and records which could govern whether they might be subject to fine or imprisonment.

It is not correct that the search room is used mainly by individuals who spend nearly full time conducting trademark searches. A survey conducted by the Patent and Trademark Office in 1983 showed that 48 percent of the users of the trademark search room were called "infrequent users" -- that is, individuals who used the search room fewer than three times a week. The infrequent users of the search room include searchers who have never before conducted a search.

These include small businesses who conduct their own investigations in the search room instead of hiring an attorney or professional searcher to conduct the search for them.

The patent search room in Crystal City contains one of the world's largest collections of technical literature. It is a great teaching library. It is used by hundreds of members of the public each day, for many kinds of searches. Even though the automated patent system for which charges are planned is still some years away, we hope the idea of charging the public for access to patent records can be put to rest now. Is the Federal government going to begin charging admission to all of its libraries?

IPO believes that charging fees for access to patent and trademark records is contrary to the intent of Congress as expressed in the legislative history of public laws 96-517 and 97-247, enacted in 1980 and 1982 respectively.

The 1980 and 1982 laws increased patent and trademark fees substantially and gave the Commissioner of Patents and Trademarks added discretion to institute and increase certain fees through rulemaking. We believe, however, that Congress intended that the entire cost of the search room should be supported by general taxpayer revenues and that no fees would be charged to support the cost of the search room. The House Judiciary Committee report on the 1980 law makes clear that Congress considered certain costs of operating the PTO to confer a general public benefit. The Committee report stated:

> The Committee...supports the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the PTO by the

> payment of fees. However, the committee has made certain amendments to the formula which empowers the Commissioner to set these fees. Certain costs of operating the PTO confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law. For example, the cost of executive direction and administration of the office, including the Office of the Commissioner and certain agency offices involved with public information, legislation, international affairs and technology assessment. Maintaining the public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. The contribution to the World Intellectual Property Organization relative to the Patent Cooperation Treaty is a treaty obligation. These costs should be paid for entirely from appropriated funds. (Emphasis added.)

We take the committee's reference to "search room" to be a shorthand term covering both the trademark and patent search rooms, since the committee report was addressing both patent and trademark costs in the section quoted.

The text of the 1980 law referred to trademark fees for "filing and processing of an application" and trademark fees "for all other services or materials relating to trademarks." In the case of patents, the 1980 law referred to fees "for the processing of an application for a patent" and "for providing all other services and materials relating to patents." The committee report made clear that the PTO costs that were to be supported by general taxpayer revenues--including search room costs--did not fall under either application "processing" or "other services."

The Congressional policy of supporting the search room entirely through appropriations was carried over into the 1982 law as well. While the legislative history of the 1982 law contains only brief mention of the search room, the 1982 law was an amendment within the statutory framework established by the 1980 law. Thus, the 1982 law

continued to refer to fees for application "processing" and for "all other services."

During testimony on the bill in 1982 before this subcommittee, the Commissioner of Patents and Trademarks referred to "the amount of the Office which is nonrecoverable, my salary, the public search room and so on..."

On the House floor, the bill was described as an amended version of an Administration recommendation "that user fees recover 100 percent of the cost of actual processing of patents and trademarks." It was said that the amendment which granted to the Commissioner authority to raise trademark fees to a higher level than had been called for in the 1980 law gave "discretion to establish the levels of fees for processing of trademarks."

Since "processing" was defined in the 1980 law as not including search room costs, and the 1982 law continued the same terminology, the 1982 law did not broaden the Commissioner's discretion to permit charging of fees for the search room.

For purposes of interpreting the law it should not matter whether the records in the search room are in paper form or in automated form -- the policy issues are the same. What is at issue is whether the Office is obliged to make trademark records -- and later patent records -- available to the public without charge. We believe the record shows that when Congress raised the user fees in 1980 and 1982, it was accepting the principle that the public as a whole receives benefits from having a search room, and therefore appropriated funds for operating the search room are warranted.

It confuses the issue to argue that a charge should be made for access to the libraries at the Office because some day it will become feasible to have information about Office records available on line at locations outside the Washington area and perhaps there should be a charge for that. As we understand it, it will be years before the Office could be in a position to consider making its records available at remote locations. The here and now issue is whether there should be a charge for records at the Office. Members of the public searching at the Office are searching for employers or clients located throughout the country.

At this time when America's economic and technical leadership is being challenged, it is the wrong time to begin taxing the users of federal libraries which disseminate information useful to innovators and investors. We urge the subcommittee to authorize appropriations in 1986 to cover the cost of operating the paper and automated trademark search libraries and to confirm that Congress does not intend for the patent search library to be supported by user fees either.

CONCLUSION

We believe very strongly that more funds than called for in the 1986 budget are needed if the Office truly is to become a first-class operation which provides maximum incentives for innovation and investment by American industry.

Maintaining public support for the Office at least at the current $101,600,000 level is fully justifiable. The $16.9 million difference between the proposed 1986 budget and the current level of

appropriations for the Office may seem to be insignificant, but $16.9 million can make the difference between a first rate and a second rate Office.

The only option besides maintaining the existing level of public support for the Office is to further increase user fees. Patent and trademark user fee income has increased over fourfold since 1982. Fees should not be increased at this time beyond the increases already authorized by law. In the case of patent fees for the next three years, we understand that the increase, in accordance with the change in the Consumer Price Index, will be 11.5 percent.

There are those, of course, who say that the entire cost of operating every function of the Office should be supported by user fees. We think an appropriate analogy for this Subcommittee is the Federal courts. Should the entire cost of operating the Federal courts to decide civil cases be supported by fees charged to the litigants?

The Appendix attached to my statement suggests in rough figures how the $16.9 million which is being cut from the public support for the Patent and Trademark Office could be spent if restored to the budget. We hope the Subcommittee will authorize restoring this money.

* * *

Thank you for this opportunity to present our views.

APPENDIX

SOME NEEDS OF THE PATENT AND TRADEMARK OFFICE WHICH COULD BE SATISFIED BY RESTORING THE $16.9 MILLION PROPOSED TO BE CUT FROM APPROPRIATED FUNDS FOR 1986

ITEM	DOLLARS
Administrative Services[1]	$ 700,000
Reduction of Backlog of Patent Appeals[2]	1,000,000
Operation of Paper Trademark Search File in Public Search Library[3]	500,000
Operation of Automated Trademark Search System[4]	1,000,000
Periodicals and Pamphlets for Examiners[5]	100,000
Funds to improve quality of patent examining and correct the budget's unrealistically low estimate of 107,000 patent filings for 1986. Among other things, funds could be used to:	
o Retain the 140 positions proposed to be cut from patent examining	
o Allow examiners more time to examine each application	
o Improve the subject matter classification of the 25 million document patent search file	
o Remedy problems with missing and misfiled documents in patent search file	13,600,000
TOTAL	$16,900,000

[1] See page 1 of budget, which calls for 10% across the board cut in administrative services, amounting to $697,000.

[2] The $1 million is a rough estimate of funds which could be used to reduce the backlog of appealed cases at the Board of Patent Appeals and Interferences. See page 21 of budget. It is assumed that the backlog at the Trademark Trial and Appeal Board (page 33 of budget) can be reduced by using income from trademark fees.

[3] Budget contains no funds for operating paper trademark search file. Budget at page 41 states cost of personnel for operating paper file is $322,000. It is assumed that with office space and other costs, total would be $500,000.

[4] $1,000,000 figure is obtained by rounding upward the $961,000 figure from page 41 of budget. IPO believes the automated system for use by the public should be supported by appropriated funds.

[5] See page 83 of budget.

Mr. KASTENMEIER. Next the Chair would like to call Mr. William A. Finkelstein, who is representing the United States Trademark Association. He has been trademark counsel for PepsiCo for the past 8 years. He is currently executive vice president of the association and has been nominated for the presidency. He has also appeared before the subcommittee in the past and is a member of the Commerce Department's Advisory Committee for Trademark Affairs.

As I understand it, Mr. Finkelstein is accompanied by Mr. J. Michael Cleary, chairman of the Patent and Trademark Office Committee of the United States Trademark Association. Mr. Cleary is a partner in the D.C. firm of Brylawski & Cleary.

Mr. Finkelstein, you may proceed as you wish. We do have the statement in full of the organization, which we will accept and make part of the record.

TESTIMONY OF WILLIAM A. FINKELSTEIN, ESQ, EXECUTIVE VICE-PRESIDENT AND INCOMING PRESIDENT, U.S. TRADEMARK ASSOCIATION, ACCOMPANIED BY J. MICHAEL CLEARY, CHAIRMAN, PTO COMMITTEE, USTA

Mr. FINKELSTEIN. I appreciate the opportunity to testify. I understand that we are running down on time. You do have our statement and it is in the record. What I thought I would do is hit some of the high points, specifically addressed to, and at the risk of preempting any questions that you planned on asking me, some of the concerns that I have heard raised this morning and give you our views. Our view, of course, is a trademark focus, representing trademark owners, and I want to focus on some of these particular issues as they pertain to trademarks.

First, with regard to the question of access to public records, I think we can take the position that it is a policy question, and also a statutory question as well. It is a policy question for the reason you raised and that Commissioner Banner and other people have raised, namely the public should have free access to public records, to government records, and an unfortunate precedent could be set by restricting that access by any sort of artificial monetary barrier.

Moreover, from the trademark perspective there is a statutory question. The statute provides for constructive notice of trademark registrations to the public, which means that for every registration that is on file, the public is, therefore, deemed to be aware of it. The public has a right to find out what is on file so that a business can avoid wasted investment in a trademark that it may eventually find out would be in conflict with a prior registered trademark, and, moreover, the conflicts themselves, necessitating time in both the Trademark Office appeals process, which is costly to the office, to the public and to the parties involved, cost in time in the courts, and confusion to the public by virtue of the fact of a conflicting mark.

There are whole host of issues that arise by virtue of the constructive notice provisions of the Trademark Act.

We believe that it is clear that there should be absolutely free and unrestricted access to the public records, that it is not merely a select group of private searchers who use these records, but they

are functionaries performing a service for the general public and for trademark owners and people who have to invest in their businesses, relying on the confidence of the public record of the trademark system.

There is more than a statutory perspective on this. When Public Law 96-517 was enacted this committee specifically stated that the public search room was not to be funded from user fees. Indeed, in subsequent testimony then Commissioner Mossinghoff also testified that there were items such as his salary, Patent and Trademark Office administration, and the public search room which were not to be funded by the current users, but, which by virtue of the fact that they had a public purpose, should be the subject of congressional appropriations.

Clearly, there are many reasons why it would be a very unwise policy decision, apart from even the mechanical points that Commissioner Banner spoke to, to consider the possibility of any barriers to the public's access of the public to government records.

I know there is a concern about the speed of examination. This also holds true on the trademark side. We have been quite pleased that the Patent and Trademark Office over the last few years has made significant strides in attempting to speed up the process. It is quite essential for American businesses to be able to invest in their new products and their new names and to know as quickly as possible whether those names are indeed available. However, clearly you don't want to compromise quality for the sake of speed.

We do have concerns, as we have seen from figures that have been released, in a rise of appeals from the examination process that seems to be occurring. While there is no certainty and it's too soon to make any judgment as to any correlation, we do have concerns that, while it is important to speed up the examination process for trademarks, quality not be sacrificed. This is something that we feel this committee should keep in mind and keep in view with regard to these somewhat artificial disposition goals. It is a good idea; those are good objectives; but when everything else is sacrificed for them, it is a different situation.

I would like to speak to a few other issues involving funding, involving this reauthorization process. I have already mentioned the view that user fees, and this is one of the subjects addressed by Acting Commissioner Quigg, mentioned, should not subsidize the public search room. Well, not only has this committee spoken in legislative history that this should not be the case, this committee has also stated that this should not have been the case with automation and that of the Trademark Office which should have been the subject of congressional appropriations. The Patent and Trademark Office's unwillingness to request funding for the automation process has brought about a number of costly and severe problems of great concern to us.

Mr. Cleary, who is with me here today, will deal with some of the automation questions that we have, in addition to the question that has already been raised about the exchange agreements, as to what is actually transpiring in the automation process that was covered earlier in Acting Commissioner Quigg's report.

At this point I would like to have Mr. Cleary make some comments on the automation situation specifically. Mr. Cleary and his

committee have worked very closely and actively with the various people within the office responsible for automating the office, and he is quite conversant on the specifics of the issue.

Mr. CLEARY. Mr. Chairman, you indicated at the outset that possibly we may have another day of hearings involving the question of the procurement policies and the policies of the Patent and Trademark Office in awarding some contracts and exchanging contracts. If that is the case, I can dispense with a lot of what I would say today because I would like the opportunity to come back and say something at a later hearing.

Mr. KASTENMEIER. It is true. It would be my plan to pursue that matter at a later point in time.

Mr. CLEARY. I think then I can skip over some of the remarks that I was going to make concerning the legality of those exchange agreements and how we got into the mess that we are in, because it is a mess.

It began because the former Commissioner wanted to move ahead quickly and get into trademark automation, but he didn't have the money. In our opinion, my opinion at least, he took some shortcuts in the procurement process that he should not have taken and now we have a mess.

If I could add one other point to what Mr. Finkelstein and Mr. Banner made about the imposing of fees to use the public search room. They had mentioned the policy considerations; Mr. Finkelstein mentioned a statutory consideration. While I don't pretend to be a constitutional scholar, I would like to throw out a possible constitutional problem. Last year Congress passed and the President signed the anticounterfeiting bill which makes it a crime to counterfeit a registered trademark. I would suggest that there may be a due process problem if they are going to charge a fee to a citizen of this country to find out if he might be charged with a crime for counterfeiting a trademark.

Commissioner Quigg indicated that automation may be in place by the end of this fiscal year. I think that he is being a little optimistic. I have seen the system; I have worked with it, with the people inside the Patent and Trademark Office.

With respect to the word marks, it is going to be, in my opinion, at least another year before we can effectively turn that system over to the examiners and the public. The problem is that the data base which they acquired from these outside vendors on the exchange agreements needs to be cleaned up. The people in the Trademark Office have recommended and the public has recommended that we are going to have to spend money to clean up the data base which we acquired before we can use it. The cost of that has been estimated anywhere from $200,000 up to $2 million, depending on how good a data base we want.

The design marks, which are the symbols, the McDonald's arches, or whatever, have not even been tested yet. It has been acknowledged by the people in the Patent and Trademark Office that the data base there is a mess and is going to have to be cleaned up. It would be at least another year before that system could be used by the examiners or the public. But interestingly enough, if you look at the proposed budget, there is not one nickel in the budget for maintaining the paper search system. The cost of maintaining

that is approximately $500,000 per year. They have not budgeted any money after the end of this fiscal year, meaning, I guess, that they are going to just dispose of it by the end of September. But we are not going to have an automated system that we can use for at least another year and possibly longer.

There are a lot of other issues that I could address on automation, but if we are going to have other hearings, or if we could have an exchange of letters, I would be happy to give you more background on it.

Mr. KASTENMEIER. Fine. We will do that. Of course, you do in your prepared statement allude to some of these issues as well.

Mr. FINKELSTEIN. Mr. Chairman, if I may make just two or three more short points on funding in general and specifically with regard to trademarks. A question was raised as to Patent and Trademark Office surplus funds being returned to the Treasury. I think the answer that was given related primarily, if not specifically, to patents as opposed to trademarks. It is specifically provided in the statute that trademark funds are to be accumulated in a no-year account for the benefit of the Trademark Office only. Unfortunately, a lot of the figures that we and the Public Advisory Committee have received, and other figures that have been released, have made it very difficult for us to determine whether or not this is indeed the case. In any event, the trademark funds and surpluses, if there are any, should be retained for our benefit and used from year to year. It is becoming a little unclear actually, very frankly, as to whether or not this is really occurring.

If this is the case and this is the way it should be, and this is the way this committee's legislative history reads and the way the statute reads, that trademark funds should be used for trademark purposes only, the revision of the trademark fee schedule as being proposed by the Patent and Trademark Office is unnecessary. There is no need to change the current fees, and certainly not to rearrange them in the manner in which they have been laid out.

The statute provides that the fees cannot be revised any earlier than every 3 years. That does not mean they have to be revised every third year. We would submit there is no reason to raise the fees at this time nor any need and also to rearrange them.

There is a whole exposition in our paper which I won't get into about why the fees should not be changed to this unit cost system.

I personally participated with this committee and with others several years ago when the fees were set, and indeed the Commissioner was given flexibility to set the fees. This committee actively participated with the trademark community, and each and every one of those fees reflects a particular public policy concern. There is a reason why application fees are $175; there is a reason why renewals are $300; and so on down the line. To upset that purposeful, delicate balance that was purposeful because of some accounting unit cost theory that there is no relation to trademark reality would be a very serious mistake.

I just wanted to emphasize that point in closing.

Mr. KASTENMEIR. If I may interrupt. Those are cautions, these separate points you are making. You do not know as a matter of fact that the Patent and Trademark Office at the end of the third year is going to propose an increase in trademark fees.

Mr. FINKELSTEIN. They have given us a list of fees. They have not been published in the Federal Register or anything. This is a list of fees that was given to the Public Advisory Committee as a proposed rescheduling of the trademark fees.

Mr. KASTENMEIER. Does this constitute an increase? Does rescheduling constitute an increase? I had understood they had not intended an increase.

Mr. CLEARY. Some fees would go up; others would go down. It all depends. They have gone from policy considerations in working out the formula to unit costs. They, for example, estimate that the unit cost of processing an application is $200. The fee now is $175. So they will raise that up to $200. The unit cost of processing a renewal is only about $25. Yet we charge $300. But there was a reason for that. We wanted to encourage people to get into the system by keeping the application fee as low as we could, and once we get them in the system, then they would pay to offset some of the other areas.

Mr. FINKELSTEIN. Also, the proposed fees and budget schedule are predicated on the various automation costs involved in the exchange agreements. All the various problems and areas of concern we have identified are very much interrelated. For example, the whole budgeting and fee schedule includes $1.2 million, I believe it is, as a payment to possibly relieve the Patent and Trademark Office of the burdens imposed by these exchange agreements which we have been referring to. It also involves paying for computer searching, but not the paper file. All these issues are interrelated. Thus, this all has to be sorted out, I would assert as a package, and we shouldn't just blindly say, well, it's 3 years and it's time to do a new fee schedule. I think it has to be a carefully considered package.

Mr. KASTENMEIER. Thank you.

On the question raised by Mr. Cleary, if I understand it, you are suggesting that there may be a more serious issue than a policy matter with respect to public access. Do I take it your point is, particularly with reference to criminal statutes, for example, counterfeiting and the like, that if in fact potentially an offender, in order to knowingly violate a trademark, was denied access excepting by virtue of having to pay a substantial fee that it may raise a defense in his behalf which will confound such a criminal prosecution? Is that the point?

Mr. CLEARY. Yes, Mr. Chairman.

Mr. KASTENMEIER. Well, I think that is a valid question that we will want to explore more fully.

I thank you both for your appearance here this morning, Mr. Finkelstein and Mr. Cleary. Obviously, there is a series of issues we will raise. I think perhaps the Patent and Trademark Office does not think it is applying contrary to law revenue surpluses from current trademark fees to nontrademark activities, but we will explore that point more precisely with them. I understand your point is in part that you do not have access specifically to determine what is being done with these so-called surplus fees and there is some suspicion that they may be diverted for other purposes.

In any event, thank you for your contributions this morning, both of you.

[The statement of Mr. Finkelstein follows:]

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EXECUTIVE OFFICES

REAUTHORIZATION
OF THE
U.S. PATENT AND TRADEMARK OFFICE
(FY 1986-88)

Hearings before the
Subcommittee on Courts, Civil Liberties and the
Administration of Justice
House Judiciary Committee

March 21, 1985

The United States Trademark Association (USTA) thanks the Chairman for scheduling this hearing on the Reauthorization of the U.S. Patent and Trademark Office (PTO) and welcomes the opportunity to comment on the PTO's current trademark programs and activities.

The Trademark Office is at a critical crossroad. Since it was last authorized in 1982 (Public Law 97-247, FY 1983-85), there have been significant changes affecting the way the Trademark Office carries out its purpose of creating and maintaining the nation's Federal trademark records. Many of these changes have resulted in the Trademark Office improving the timeliness and quality with which is carries out its trademark registration responsibilities. Others, principally those associated with Trademark Office fees and the PTO's trademark automation program, have given rise to public concern about whether the Trademark Office has lost sight of its statutory objectives and responsibilities.

QUALITY AND TIMELINESS OF EXAMINATION

Although trademark automation and fee issues dominate most discussions of the Trademark Office, they cannot be allowed to completely overshadow the improvements in the quality and timeliness of trademark examination that have been realized during the last three years. Trademarks are being registered more quickly than they have in many years. A greater sense of professionalism and higher morale seems to prevail among Trademark Office personnel. Although USTA cannot identify the source of these positive changes with certainty, it believes that several factors have contributed. First, are external factors such as Congress' elevation of the Commissioner to the level of Assistant Secretary of Commerce and its approval of higher grade levels for members of the Trademark Trial and Appeal Board (TTAB) which have provided recognition to the importance of the Trademark Office's work. Second, are internal considerations, namely the leadership and commitment of Assistant Commissioner for Trademarks Margaret Laurence, the greater opportunities for career growth that have been given to Trademark Office personnel and the institution of new programs to assure continuing improvements in the Office's registration policies and procedures. With regard to the last item, specifically noteworthy achievements are: (i) the establishment of the "3/13" pendency goal (i.e., three months to the Office rendering it first official action on whether a mark is registrable; thirteen months to the issuance of the registration itself) and the examiners' ability to reach it on schedule, (ii) a marked reduction in inconsistencies in the examination practices of the eight different Trademark Law Offices through the issuance of "Examination Guides" and (iii) the Trademark Office's making available to the public a version of the World Intellectual Property Organization (WIPO) listing of acceptable identification of goods and services the Office had tailored to the reality of the U.S. marketplace.

In sum, the "laundry list" of problems that contributed to the PTO earning the dubious distinction of being labeled a "national disgrace" four years ago has been eliminated. At the same time, the Office continues to be responsive to the substantive concerns of trademark owners in its registration practices. It has acknowledged USTA's and others' concern that the Office's goal of reducing pendency to "3/13" should not displace the equally important element of quality

in the examination process. In addition, the Trademark Office has kept its formal rules and regulations, as contained in Title 37 of the Code of Federal Regulations, current and, with few exceptions (most notably the PTO's proposal to charge the public fees to gain access to its public search room records), changes are consistent with the needs of the public with which the Office deals most directly.

TRADEMARK FEES AND AUTOMATION

Authorization of the PTO in 1982 heralded the implementation of two far-reaching changes in the adminstration of the Trademark Office. First, the Trademark Office became the only government agency to be funded exclusively by fee generated revenues. Second, the PTO embarked on a program to completely automate its Trademark Operations by the end of 1984. Both of these programs have raised substantive public policy questions.

Trademark Fees

In enacting Public Law 97-247 three years ago, Congress gave the Commissioner absolute authority to set trademark fees, effective October 1, 1982.* The only statutory restrictions Congress placed on the Commissioner's authority were: (i) new fees had to be published in the Federal Register sixty days before they would take effect; (ii) fees could not be adjusted more than once every three years; and (iii) revenues derived from trademark-related fees could be used only for trademark-related activities. Since the Commissioner received absolute fee-setting authority from Congress, the PTO has not asked for or received from Congress any General Fund revenues for its trademark activities. In effect, the new fees had the effect of cutting the Trademark Office's budget 100% at the beginning of fiscal year 1983.

With the Trademark Office's new fee program in operation for almost three years and the PTO considering how it might change its trademark fees, USTA believes that the current reauthorization cycle provides a timely opportunity to review the fee program, its effects and the policy questions its implementation

*In reality, this Committee, in its Report on the new law (House Report 97-542), specified what the fees should be.

has raised. Specifically, USTA asks:

> 1. Have the fees discouraged some trademark owners, particularly individuals and small businesses, from registering their trademarks?

This is an important question because it goes to the heart of the Trademark Office's statutory purpose of creating a complete record of the trademarks being used in commerce. It is impossible to answer, however. Although the total number of applications to register has not been noticeably affected by the higher fees the PTO is charging to register a mark, the number of marks not registered because of the fees cannot be estimated.

> 2. Why have explicit Congressional statements that the costs of automation and of maintaining the search room should be funded by General Fund revenues been ignored?

As set forth in the report this Committee wrote to accompany Public Law 96-517, Congress did not intend that user fees should recoup those costs that "go to meet the responsibility of the Federal Government to have the PTO in order to execute the law." This Committee clearly and specifically stated that such things as maintaining the search room and the acquisition or replacement of equipment were to be paid for entirely from appropriated funds. Irrespective of these statements and absent any limitation on its budget authority that would preclude it, however, the PTO has not sought funds for either trademark automation or the search room during the Congressional appropriations process.

USTA believes that the PTO's unwillingness to request funding for its trademark automation program has brought about many of the costly problems that are now and have been encountered. Had it sought funding for automation, the PTO would have been able to purchase outright an automated data base of its trademark records thereby avoiding all the problems that have arisen out of the Exchange Agreements it concluded to obtain the data base through barter (these Exchange Agreements, which will be discussed more fully in the portion of USTA's statement dveoted to automation, were signed within one month of the PTO submitting its Automation Master Plan to Congress in December 1982).

With respect to the public search room, the PTO has not only failed to ask for appropriated funds, it has published in the Federal Register fees for public

access to the information it contains. In addition to conflicting with this Committee's Report language that the search room should be funded by appropriated funds, USTA submits that imposing search room fees is contrary to the constructive notice provisions of the Lanham Act.

3. Has the PTO administered its user fee program effectively and used the revenues it has received in accordance with Congressionally-specified standards?

In 1983, responding to concerns that the Trademark Office, funded exclusively by user fees, would escape meaningful budgetary oversight, Secretary of Commerce Baldrige committed himself and the PTO to keeping the public informed about the Trademark Office's financial condition. Review and analysis of the financial reports the PTO has made available pursuant to this commitment have consumed untold hours of the Commerce Department's own Public Advisory Committee's time. Yet, USTA suggests that if any of the members of that committee were asked, none would be able to state with assurance (i) how much revenue trademark fees have raised during the past three years, (ii) whether the PTO has instituted effective cost control mechanisms or (iii) whether, as statutorily required, trademark fee revenues have been used only to fund trademark-related programs and activities. The fact that, by the PTO's own admission, trademark fee income is not always distinguished from patent fee income, would appear to make it impossible for the PTO to meet its statutory obligation of allocating trademark revenues only to trademark activities.

Compounding its inability to provide useful information to the public about how existing fee revenues compare with projections made three years ago, the PTO has requested public support for a complete realignment of the existing fee structure, effective October 1, 1985. It is USTA's conclusion that the PTO has failed to substantiate that any revisions in fees are required or warranted. Moreover, it is opposed to the philosophy with which the PTO is approaching modifications to its current fee structure. First, the PTO is suggesting that new fees be instituted solely on the premise of recovering "unit cost." This approach totally disregards, and would dramatically upset, the careful balance between the Trademark Office's financial goals and the public policy objectives that is reflected in the existing fee structure and which

was established in close cooperation with the trademark community and Congress. Second, the PTO is suggesting that the revenue surpluses projected if the current fees remain in force will be applied, contrary to law, to non-trademark activities.

4. Is the Trademark Office a good example of how "user fee" programs should work?

While there is nothing with which to compare the Trademark Office's experience with "user fees," USTA suggests that any agency whose activities are funded in any significant way by user fees should become more, not less, responsive to the concerns of the public it serves most directly. In applying this philosophy to how the PTO has approached trademark automation, a completely opposite approach appears to have prevailed.

In addition, USTA believes that Congress needs to exercise careful oversight of how an agency is implementing a user fee program to assure that financial issues do not overwhelm the agency's statutory purposes and objectives. Examples of this happening with the Trademark Office include the PTO's pursuit of 100% recovery of all its costs, not just those associated with providing specific "user" services, its efforts to impose fees for public access to public records, its desire to modify current fees so that, irrespective of policy considerations, each one reflects "unit costs" and, perhaps most important, its willingness to mortgage control over the government's official trademark records and to severely inhibit public access to them by bartering for, rather than purchasing outright, the data base for its automated system.

Automation

In 1980, Congress called upon the PTO to prepare a plan for the development and procurement of computerized data and retrieval systems that would be applicable to all aspects of the PTO's functions. As Congress specifically stated that the costs and funding of these systems should not be considered in preparing the Plan, the PTO was given complete flexibility to design the very best state of the art system possible for completely and competently serving the needs of both the public and the PTO.

The PTO delivered its Automation Master Plan to Congress in December 1982. The Plan had been developed by an Automation Advisory Committee whose membership

was limited to government employees. Members of the private sector were not invited to participate on this Advisory Committee.

In defining the automation needs of the Trademark Office, the PTO's Plan emphasized:

> -- The significance and necessity of providing the public and Trademark Office personnel with easy access to fully accurate and completely current information on the status, ownership and characteristics of trademarks that are registered and pending registration;
>
> -- The compelling need to refine searching of the Trademark Office's records by replacing the existing manual paper search system with an automated system that, in addition to assuring 100% validity of the Office's records, would improve searching by creating the capability to search marks by prefix, suffix, root words, automatic vowel substitution, phonetic similarities and design characteristics; and
>
> --The reduced costs both the Office and the private sector would realize through automated processing of trademark registration applications.

Neither the details of how the PTO would proceed toward meeting these three objectives of trademark automation, nor any information on what the system would cost, were contained in its 300-page Automation Master Plan. Nonetheless, within a month of delivering the Plan to Congress, the PTO completed negotiation of the first of the Exchange Agreements it would conclude in order to obtain, through barter rather than by purchase, a machine-readable data base of its records.

In bartering for, rather than buying, a data base of its trademark records, the PTO agreed to several things in its Exchange Agreements. The most significant was a requirement that the public could not make use of any of the refined search techniques automation was undertaken to provide. The public's use of automated search techniques would be strictly limited to those "comparable and equivalent" to techniques used when searching the paper records.

Public outrage at this and other restrictions on public access to which the PTO agreed in order to avoid requesting the funds necessary to purchase a data base, forced the PTO and its vendors to renegotiate their Exchange Agreements. Ironically, the renegotiated Agreements may be even more restrictive and contrary to the objectives of automation and the purposes of the Federal Trademark System than the original agreements.

Most notably, while the Exchange Agreements do not require the vendors to provide any type of proprietary information -- they are required only to convert the information in the Office's paper records into a machine-readable format -- the vendors are being given a copyright to the data they are converting. Thus, the PTO has given control over the government's official trademark records to private trademark search companies. The implications of this are staggering because the Trademark Office will be using this data base as the exclusive and official source of information to be searched in determining the future registrability of all trademarks. This is apparent from the PTO's FY 1986 budget request which contains a proposal to discontinue and, in effect, destroy the Trademark Office's existing paper records.

The General Accounting Office (GAO) study of these Exchange Agreements that Representative Jack Brooks initiated last fall, may resolve many of the questions about the methods the PTO used to procure its data base. However, its scope may not include an analysis of whether the automated system being installed at the Trademark Office will enhance the Office's ability to fulfill its statutory responsibilities. Questions of that nature must, therefore, be addressed during current consideration of the PTO's reauthorization:

1. Will trademark automation meet the expectations of the public and Congress?

In its Master Plan, the PTO stated that trademark automation would (i) provide Trademark Office personnel and the public with refined search capabilities, (ii) improve access to the Trademark Office's public records, (iii) assure 100% validity of the Office's records, and (iv) reduce costs. Remarkably, the success of the PTO in reaching every one of these goals is tied to and dependent upon the status of the data base Exchange Agreements.

Refined Search Capabilities. There has never been much doubt that the automated search system designed for internal use by Trademark Office personnel would provide for more refined search techniques. However, while the PTO has renegotiated the Exchange Agreements to remove the provision totally prohibiting the public's ability to conduct more refined searches, it has agreed to charge an hourly "royalty" fee for all public use of enhanced automated search techniques.

Improved Access. In considering automation's success at improving public access to Trademark Office records, it must be recognized that fees for all public use of the search room are being proposed for the first time in history. In addition, the Exchange Agreements specifically prohibit remote searching of the Federal Trademark records from terminals outside the confines of the Trademark Office in Crystal City, so improved access is impossible logistically as well.

100% Validity. Whether automation will produce a more complete and accurate record of trademarks the have been registered and are pending registration cannot be concluded at this time. New problems, errors and gaps in the data base emerge regularly. Once the PTO establishes the level of accuracy and completeness it will find acceptable for the records converted under the Exchange Agreements, guidelines for which it has recently should public advice, reasonable analysis will be possible.

Reduced Costs. It is difficult, if not impossible, to determine the actual amount the PTO has spent and will eventually spend on trademark automation. Even if automation's cost-effectiveness in simple dollar terms could be estimated, however, a conclusion still could not be reached until one added in the indirect costs associated with automation. Among other things, the PTO has lost control over the public records it is responsible for maintaining, public access to public records may be limited and may no longer be free and competition among private search firms may be eliminated by monopoly-assuring provisions in the PTO's Exchange Agreements.

2. How much will it cost for the government to regain control over its public records and the types of access to them the public will be allowed?

The answer to this question, like so many others posed by trademark automation, may depend on the conclusions GAO reaches in its study of the Exchange Agreements. While a "buy out" of the Exchange Agreements is spoken of frequently, USTA has seen no figures for what it would cost for the PTO to regain control of its trademark records. For example, the $1.2 million currently being discussed represents only a partial buy out and does not include any of the costs of verifying and cleaning up the data base once it is under PTO control.

CONCLUSIONS AND RECOMMENDATIONS

The last three years have brought about significant changes at the PTO. Fees have produced revenues that enabled the Trademark Office to function without the need for any General Fund revenues. Automation, discussed for years without result, is becoming a reality and the quality and timeliness of the Trademark Office's processing of applications to register trademarks have improved considerably.

In authorizing the Patent and Trademark Office for fiscal years 1986-88, Congress must consider each of these changes in terms of its impact on the Trademark Office's ability to fulfill its purpose of creating and maintaining the nation's Federal trademark records. As it weighs this issue it must evaluate as well whether the value of these records -- which rests on their being public, current, accurate, complete and accessible — has increased or declined.

Based on its consideration of these matters, USTA recommends the following:

--Most important, funds should be authorized (1) for the purchase of an automated system and a data base of the government's trademark records over which the PTO, not private search companies, exercises control and (2) for the operation of a search room in which members of the public will continue to have free, unlimited access to the public trademark records the PTO creates and maintains. Funds should also be made available for the other activities of the Office which, in the words of this Committee, "confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law."

--Second, USTA asks for assurance that trademark fees will not be adjusted unnecessarily or in a way that will negatively affect the purposes of the Federal Trademark Registration System. This would mean delaying the fee revisions the PTO is planning for October 1, 1985 until it can be conclusively shown that changes are warranted and instituting a prohibition against the PTO imposing fees for public access to the records in the trademark search room.

--Related to the subject of fees, USTA asks for Congressional reaffirmation that income from trademark-related fees is to be expended solely for trademark-related activities at the PTO. In order to monitor whether the PTO is allocating its funds correctly, regular and understandable reports should be mandated.

--Next, USTA encourages Congress to do what is necessary to ensure that the Trademark Office's paper records are maintained until it can be shown that the automated data base is an acceptable replacement for it.

--Finally, USTA encourages continued active oversight by Congress of the PTO's programs, activities and finances. While it is and has been USTA's desire that its and the PTO's concerns are not in conflict, USTA believes that the the important public interests served by the Trademark Office must prevail.

In conclusion, USTA once again expresses its appreciation to the Chairman and the members of the Committee for their interest in and attention to the operations of the Trademark Office and the Federal Trademark Registration System. It also makes itself available now and in the future to be of assistance in answering any trademark questions that members of the Committee might have.

That concludes this morning's hearing. The subcommittee is adjourned.

[Whereupon, at 11:45 a.m. the hearing was adjourned.]

ADDITIONAL STATEMENTS

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STATEMENT OF

THE AMERICAN INTELLECTUAL PROPERTY

LAW ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE

ADMINISTRATION OF JUSTICE

UNITED STATES HOUSE OF REPRESENTATIVES

APRIL , 1985

ON

THE AUTHORIZATION OF THE PATENT AND TRADEMARK OFFICE

The American Intellectual Property Law Association (AIPLA) is a national bar association of nearly 5,000 lawyers engaged in the practice of patent, trademark, copyright and other laws affecting intellectual property. The AIPLA is vitally interested in the performance of the Patent and Trademark Office (PTO). We appreciate the opportunity to offer the Subcommittee our opinion of the performance of the Patent and Trademark Office (PTO) since last authorized in 1982 and on the course we understand the PTO intends to follow in the future.

We have two serious concerns. The first is whether the PTO is complying with the law in fixing fees and spending fee income. The second is whether the goals which are currently being pursued by the PTO are goals which will, in fact, improve its performance. While these two issues are interrelated, we will discuss them separately.

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.

However, we are not here today to reargue the fee levels set in P.L. 97-247. We trust that the Subcommittee agrees that it is contrary to public and economic policy, to inhibit the use of the patent and trademark systems by imposing overly burdensome

government fees. An important measure of the usefulness of the patent system is the number of disclosures to the public it engenders. The number of patent applications filed by Americans has declined every year for the past twenty years. How much these new fees contribute to this continuing decline remains to be seen.

Although the authorized fee levels are high, the Subcommittee did not give the PTO financial carte blanche and in fact the opposite is true. In House Report 96-1307 Part I and House Report 97-542, you laid out specific guidelines and restraints on fixing fee amounts and spending fee income. The establishment of this "system" of controls was a prudent decision. The directions of the Subcommittee contained in House Reports are not advisory in nature. We understand them to be the law.

The "system" was established in P.L. 96-517. Two years later, in P.L. 97-247 the recovery percentages for actual processing of trademarks and patents was increased from 50% to 100%. Also, certain patent processing fees were specified in the law. However, the "system" was not changed.

We question whether the PTO has fully complied with the "system" regulating fees.

The details of the "system" by which costs of operating the PTO should be borne by users through fees and which costs should be supported by the public through appropriated funds can be summarized as follows:

(A) The actual cost of processing patent applications and applications for trademark registrations should be entirely

funded by user fees. The rationale is that applicants directly benefit from such services.

(B) The actual cost of customer services should be entirely funded by fees collected from the requestors of the service. These services include providing materials such as patent or trademark copies, or recording an assignment. The rationale is the same as for category (A).

(C) The costs of operating the PTO which are not associated with processing or service should be paid entirely from appropriated funds. Such costs include the Offices of the Commissioner and Assistant Commissioners, the Office of Public Information, the Office of Legislation and International Affairs, the Patent Depository Libraries, and the search rooms. As the Subcommittee said, "such costs confer no direct benefits on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law." (H.Rept. 96-1307 Part I p. 8). The Subcommittee also specifically excluded from "processing costs" (category A) "the acquisition or replacement of equipment where such acquisition or replacement involves substantial capital outlays." (H.Rept. 96-1307 Part I p. 9).

The following is a description of PTO fee related practices which we believe merit evaluation by this Subcommittee:

1. The PTO has maintained public patent and trademark search libraries since the last century. There has never been a cost required for the use of either library. These libraries contain public records assembled at public expense to which the public needs access. The patent and trademark laws cannot operate

without these facilities. As this Subcommittee said in H.Rept. 1307 Part I, "maintaining the public search room confers a general public benefit...[and the] costs should be paid entirely from appropriated funds." In spite of this, the FY 1986 PTO Budget Submission says on page 41, "The Automated Trademark Public Search Room will be totally supported by special user fees."

2. In 1980 when the fee "system" was established, this Subcommittee clearly recognized that a major automation effort must be undertaken to modernize PTO operations. Section 9 of P.L. 96-517 directed that planning for it be undertaken. The Subcommittee also recognized that the enormous cost of making large capital expenditures for these computer systems should not be borne by those who happened to apply for patents and trademark registrations during the years when the PTO was making fundamental system changes. The Subcommittee said in H.Rept. 1307-Part I that such costs are "excluded" from "processing" costs for the purposes of user fees and that "the acquisition or replacement of equipment where such acquisition or replacement involves substantial capital outlays...would be paid from the Patent and Trademark Office's appropriations."

While the FY 1986 Budget Submission makes no reference to the restrictions on capital outlays, frequent examples of such acquisitions are noted. On page 51 for example, the Subcommittee will see that for the trademark operation a "search computer was installed in March, 1984 [and] work stations were connected in June." Also, "a computer assisted retrieval system [T-Car] was

purchased and installed in November, 1983." The Office acquired both the hardware and the data bases for the automated trademark search system during FY 1984 and FY 1985. We understand the hardware cost more than $2.5 million. The trademark data bases were acquired pursuant to "barter" agreements which were intended to save money but did not. We now understand the PTO intends to pay $1.1 million to the parties to the barter agreement to modify some of their terms. We understand that $750,000 must be spent to improve the quality of the data bases before they can be relied upon. For another example, on page 36, you will see that the word processing system of the TTAB will be replaced at a cost of $49,000 in FY 1986. All of the aforementioned acquisitions involve substantial capital outlays for equipment, which should have been made with appropriated funds. Although the budget submissions are very difficult to interpret, it appears to us that the entire cost of the Trademark Operation including these purchases has been provided by processing and service fees and without appropriated funds.

The PTO is obligated to pay nearly $300 million in a cost plus contract for, among other things, the acquisition of hardware for the automated patent system. Some of these hardware acquisitions will occur this fiscal year. The FY 1986 Budget Submission does not indicate that capital outlays will be made from appropriated funds. Apparently, the PTO is planning to fund these enormous capital outlays from processing and service fees.

We urge the Subcommittee to request that the PTO provide a list of what could reasonably be called acquisitions or replace-

ments of equipment involving substantial capital outlays, the cost of each, and the source of funds for each. The Subcommittee can then judge whether these practices comply with the directives and intent of P.L. 96-517 and P.L. 97-247 for itself.

3. The PTO has recently issued final rules implementing P.L. 98-622. The new rules impose a $120.00 fee for 13 specified petitions to exercise rights authorized by law. These fees add to the lengthy list of other miscellaneous processing fees. For example, P.L. 98-622 amended Section 116 regarding inventors named in a patent application. During the course of examination, a particular claim may be dropped from an application which in turn may require dropping a named inventor if he has a connection only to that claim. The substance of the "petition" in this case would be that simple and would merely be received by the Office and placed in the file. Section 41(d) of Title 35 authorizes the Commissioner to set miscellaneous processing "fees to recover the estimated average cost of the Office of such processing..." We seriously doubt whether petition fees such as this will cost on average $120.00 to process although we assume the Office is prepared to explain how this figure was reached.

The imposition of these miscellaneous processing fees raises a larger issue. The law authorizes the Office to recover only up to 50% of the cost of processing patent applications in processing fees. The other 50% of costs may only be recovered by patent maintenance fees. The FY 1986 Budget Submission says that the Office collected $16 million in "surplus" fees during the FY 1983-1985 cycle. We question whether these "surplus" fees were, in fact, collected beyond the Office's authority to

collect them. To worsen the situation, the Acting Commissioner has testified here that the Office will increase patent processing fees by 10-1/2% this October. We question whether this increase is authorized by the limitation in the law that only 50% of processing costs can be recovered by processing fees. This seems especially relevant to us in light of the decision to reduce the number of authorized patent examiners by 101 positions in FY 1986 and presumably further in the succeeding fiscal years.

We urge the Subcommittee to obtain from the PTO an explanation of how miscellaneous processing fees are fixed, the total amount of processing fee revenue anticipated in FY 1986 through FY 1989, and how that total, with the 10-1/2% increase, compares with the projected cost of patent processing. The sum of projected processing fees must be 50% or less of the sum of processing costs. We don't believe it is equitable or legal for our clients to have to pay "surplus" fees.

Finally, the FY 1986 budget proposal is made up of the $16 million in "surplus" processing and service fees, anticipated fees of $118.5, and appropriated funds of $84.5 million for a total budget request of $219 million. Some portion of the $118.5 will come from maintenance fees. How much is projected we do not know although that amount is essential to determine whether in FY 1986 the Office will exceed the 50% limitation. In other words, the $16 million in processing fees plus the processing fees projected for collection in FY 1986 cannot lawfully exceed 50% of the cost of processing patent applications in FY 1986. We believe the Subcommittee must determine whether the FY 1986 budget proposal complies with the law.

4. The Subcommittee should be aware of two other situations which are very counterproductive and which would likely not have occured but for the current zeal of the Office to collect fees. The first involves frustration of the intent of Congress and the second involves inequitable treatment of applicants.

P.L. 98-622 created the statutory invention registration (SIR) procedure to allow inventors to obtain defensive only protection for inventions. An important benefit of this new procedure was that it was to be inexpensive. As this Subcommittee noted that benefit would make SIRs particularly useful to those with limited resources such as universities and small businesses. The PTO has now set the fees for SIRs. For large entities, the SIR fee is $400.00 if issued prior to a first examiners action and $500.00 if issued after first action. The fees are higher for universities, individuals, and small businesses which must pay $400.00 prior to first action and $650.00 after first action. Fees of this magnitude will certainly seriously discourage the use of this procedure.

P.L. 97-247 authorized fees "for petitions for one-month extensions of time to take actions required by the Commissioner." (35 U.S.C. 41(a)(8)). The fees are $50.00 for the first month, $100.00 for the second, and $200.00 for the third. We're sure the Subcommittee envisioned these fees as applicable to a situation where applicants needed and were petitioning for more time. Under current PTO practice in certain situations, applicants are forced to pay for time extensions to preserve their rights because of delays by patent examiners. These delays are entirely beyond the control of applicants. In these cases, the

slower the Office acts the more fees it collects.

Near the end of prosecution, an examiner may issue a "final rejection" of an application. Three months after the rejection, the application is abandoned unless it can be amended to the satisfaction of the examiner and thus allowed. Typically, on receiving a notice of final rejection, the applicant through his attorney will file an amendment to cure the defect noted in the final rejection. Of course, the applicant has the right to appeal the rejection at any time during the three month period. However, if the applicant files the amendment in the last month of the three month period, very often the examiner takes no action until the three month date has passed. Office policy requires examiners to respond in one month. However, frequently, contrary to that policy nothing is heard from the examiner for two or three months after the amendment is filed. If the examiner persists with the rejection in the fifth or sixth month after the rejection date the applicant has the choice of appealing or refiling the application. However, before the applicant can do either, he must pay $50, $150, or $350 for extensions of time during which he waited for the examiner to respond to the amendment. For example, if the examiner followed Office policy and responded in one month, an applicant would be able to file an appeal for $115 plus a $50 extension fee for the first month. When the examiner takes three months to respond, the applicant must pay the $115 appeal fee plus $350 for the examiners slowness. This unfair practice has been a source of controversy between the Bar and Office for more than a year. However, we understand that the Office will continue with it because it has targeted fee income of $1 million from these

extensions after final rejection. We would urge the Subcommittee to direct the Office to cease this inequitable practice.

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 financially damaged. 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 three years, the Office has pursued three goals. Two are the production targets of 18 months patent pendency by 1987, and 3 months to first action on trademark applications and 13 months to issuance by 1985. We support these two goals. However, the "18/87" goal is clearly far less important than allocating resources to improve the quality of patent examination. Of course, we obviously do not support backing away from this goal for the expedient of further reducing appropriations to support the Office.

The third office goal is automation. This does go to improving the quality of patent examination. 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.

There are significant short term problems that continue to need immediate attention. For example, former Commissioner Mossinghoff acknowledged in 1982 and reaffirmed several weeks ago in the BNA Journal that it is a "scandal" for 7% of the references to be missing from the patent search file. We agree. We believe that sufficient resources must be made available to eliminate the problem, the scandal of which is that the deficiency in this critical tool makes patent searches less reliable. The Office cannot ignore this matter by deciding that some day in the future this will go away with automation. We understand the Office has made no meaningful effort in the past three years to correct this situation, and apparently intends none in the future.

Another serious concern is what seems to be the return to the "boom and bust" policy of the mid 1970's regarding examiner manpower. Apparently, once again the 18 months pendency goal overrides considerations of patent quality. From FY 1972 through FY 1978 patent pendency time decreased until finally reaching 18.9 months in FY 1978. Beginning in FY 1975, examiner manpower was reduced from 1,270 positions in FY 1974 to somewhere in the 900's in FY 1978. Of course, in FY 1979 pendency began to increase. The decision makers of the 1970's were clearly interested in production rates only.

A number of decisions regarding examiner manpower can be made which will directly improve the quality of patent examination. More examiners can be detailed to the critical task of reclassifying the search file. Time off from production quotas can be allocated to examiner training and education. More examiner time per case can be allowed. There are other things

involving examiner manpower which can be done to improve quality. For example, the backlog at the Board of Appeals is now running at unprecedented levels and the FY 1986 Budget Submission indicates it will get worse. For another example, we understand it currently takes nearly two years on average to obtain an examiners first action on design patent applications. These situations cry out for increased examiner resources. A commitment to improving quality did not exist in the 1970's. The Budget Submission appears to be more of the same with a reduction of 101 examiner positions to achieve "deceleration" as the 18 month goal is approached.

Quality rather than speed should also be the overriding factor in the automation effort. The Office announced that the trademark search library was to be fully operational for examiners and the public in September, 1984. The automated patent search system is scheduled to be completed in 1990. We appreciate the usefulness of planning through target dates. However, the important consideration is that whenever these systems are completed they must be totally reliable. Decisions made along the planning and implementation path which compromise quality for the sake of making a target date are not only counterproductive but expensive.

We believe that decisions of this type were made in connection with the automated trademark system. The Office did not comply with required federal procurement procedures in acquiring the data bases. The specifications for the data bases were drawn up and used without determining what were the private sector user needs from the system. We believe that these decisions contributed to significantly increasing the final cost of the system. Whether the September, 1984 target date was realistic or

not is now a moot point. The system is not operational and no new target date has been announced. The bar has established a broad-based ad hoc committee to work with the Office to attempt to insure that problems like this will not occur with the automated patent system.

Users now pay to the Office nearly $100 million per year and that will continue to increase. As you can imagine, we are surprised and disappointed to learn that $16 million of fees collected in excess of FY 83-85 estimates would not be used to improve the Office, but rather to reduce public support. This is directly contrary to our understanding of the Administration position on the use of fees articulated in successfully supporting the extremely high fees which were imposed in 1983 by P.L. 97-247. We heard and believed that the Administration was committed to creating a "first class" Office. With the important exception of the automation project, which we fully support in principle, we see only a commitment to production units and quotas. To have a "first class" Patent Office, quality must be the fundamental and overriding goal.

This completes our statement. We would be pleased to attempt to answer any questions the Subcommittee may have.

APPENDIX I

LEGISLATIVE MATERIALS

99TH CONGRESS
1ST SESSION

H. R. 1628

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

IN THE HOUSE OF REPRESENTATIVES

MARCH 20, 1985

Mr. RODINO (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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is authorized to be appropriated for the payment of salaries and necessary expenses of the Patent and Trademark Office to become available for fiscal year 1986, $84,739,000, and in fiscal years 1987 and 1988 such sums as may be necessary as well as such additional or supplemental amounts as may be necessary, for increases in salary, pay, retirement, or other employee benefits authorized by law. Funds available under this Act shall be used to reduce by 50

per centum the payment of fees under section 41(a) and (b) of title 35, United States Code, by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns as defined in section 3 of the Small Business Act and any subsequent legislation amending that section or transferring responsibilities under that section and by regulations established by the Small Business Administration or its successor. When so specified and to the extent provided in an appropriation Act, any amount appropriated pursuant to this Act and, in addition, such fees as shall be collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended (15 U.S.C. 1051 et seq.), may remain available without fiscal year limitation.

I

99TH CONGRESS
1ST SESSION

H. R. 2434

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

IN THE HOUSE OF REPRESENTATIVES

MAY 8, 1985

Mr. KASTENMEIER (for himself, Mr. MOORHEAD, Mr. BROOKS, Mr. MAZZOLI, Mr. SYNAR, Mrs. SCHROEDER, Mr. BERMAN, Mr. BOUCHER, Mr. HYDE, Mr. KINDNESS, and Mr. DEWINE) 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) 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.—Amounts appropriated under subsection (a)(1) shall be used to reduce by 50 percent each fee paid under section 41(a) or 41(b) of title 35, United States Code, by—

(1) an independent inventor or nonprofit organization as defined in regulations prescribed by the Commissioner of Patents and Trademarks, or

(2) a small business concern as defined under section 3 of the Small Business Act (15 U.S.C. 632).

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. INCREASES OF TRADEMARK AND CERTAIN PATENT FEES PROHIBITED.

(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 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.

(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 as described in section 41(f) of such title. The Commissioner also may not establish additional fees under such section during such fiscal years.

SEC. 4. FEES FOR USE OF SEARCH LIBRARIES PROHIBITED.

The Commissioner of Patents and Trademarks may not impose a fee for use of public patent or trademark searching facilities. The costs of such libraries shall come from amounts appropriated by Congress.

SEC. 5. USE OF PATENT AND TRADEMARK FEES PROHIBITED FOR PROCUREMENT OF AUTOMATIC DATA PROCESSING RESOURCES.

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, may not be used during fiscal years 1986, 1987, and 1988 to procure by purchase, lease, transfer, or otherwise automatic data processing resources (including hard-

ware, software and related services, and machine readable data) for the Patent and Trademark Office.

SEC. 6. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not exchange 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. This section shall not apply to any agreement with a foreign government relating to data for automation programs.

99TH CONGRESS 1st Session | HOUSE OF REPRESENTATIVES | REPORT 99-104

PATENT AND TRADEMARK AUTHORIZATIONS

MAY 15, 1985.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. KASTENMEIER, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H.R. 2434]

The Committee on the Judiciary, to whom was referred the bill (H.R. 2434) to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

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.—Amounts appropriated under subsection (a)(1) shall be used to reduce by 50 percent each fee paid under section 41(a) or 41(b) of title 35, United States Code, by—

(1) an independent inventor or nonprofit organization as defined in regulations prescribed by the Commissioner of Patents and Trademarks, or

(2) a small business concern as defined under section 3 of the Small Business Act (15 U.S.C. 632).

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. INCREASES OF TRADEMARK AND CERTAIN PATENT FEES PROHIBITED.

(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 adjust-

ments 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.

(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 as described in section 41(f) of such title. The Commissioner also may not establish additional fees under such section during such fiscal years.

SEC. 4. FEES FOR USE OF SEARCH ROOMS AND LIBRARIES PROHIBITED.

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. USE OF PATENT AND TRADEMARK FEES PROHIBITED FOR PROCUREMENT OF AUTOMATIC DATA PROCESSING RESOURCES.

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, may not be used during fiscal years 1986, 1987, and 1988 to procure by purchase, lease, transfer, or otherwise automatic data prccessing resources (including hardware, software and related services, and machine readable data) for the Patent and Trademark Office.

SEC. 6. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not exchange 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. This section shall not apply to any agreement relating to data for automation programs entered into with a foreign government or with a bilateral or international intergovernmental organization.

PURPOSE OF THE LEGISLATION

The purpose of H.R. 2434 is to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal years 1986 through 1988.

BACKGROUND

Reliable patent and trademark protection for inventors and businesses can provide important incentives for technological progress and investment. When President Reagan signed Public Law 98-622, he said "the stimulation of American inventive genius requires a patent system that offers our inventors prompt and effective protection for their inventions." The recent report of the President's Commission on Industrial Competitiveness noted, "Since technological innovation requires large investments of both time and money, the protection of our intellectual property is another task we should place on our competitive agenda."

The 1979 report by the Advisory Committee on Industrial Innovation of the Carter Administration's domestic policy review stated:

> In general, the patent system has served the country well. Major overhaul of the patent system is not recommended. Nevertheless, some modification to the system could have a beneficial effect on innovation. . . . When proper consideration is given to these problems as they relate to those independent inventors and small businesses whose success—and indeed very existence—depends upon

the innovation process, it becomes clear that some changes must occur.

The Committee on the Judiciary for several Congresses has been engaged in an effort to improve the effectiveness of the U.S. patent and trademark systems. Laws on this topic which have been enacted include: Public Law 96-517, which established a new system for reexamining patents in the Patent and Trademark Office and authorized the Office to establish user fees administratively; Public Law 97-164, which established the Court of Appeals for the Federal Circuit and gave that court exclusive appellate jurisdiction in patent cases; Public Law 97-247, which authorized appropriations for the Patent and Trademark Office for fiscal year 1983 through 1985 and increased user fee income substantially; and Public Law 98-622, which made several changes to clarify and improve patent law and procedure.

An effective Patent and Trademark Office is the cornerstone for reliable patent and trademark protection. Changes in the manner of operating the Office can have as great an impact on the nation's economy as changes in the substantive rules of patent and trademark law. Public Laws 96-517 and 97-247 have resulted in major changes in the Office. User fee income has risen from $28.8 million in 1982 to an estimated $98.6 million 1985. Pursuant to Section 9 of Public Law 96-517, the Commissioner submitted an "Automation Master Plan" in 1982, and began major programs to automate both the patent and the trademark operations. The Office estimated in 1982 that its automation programs will cost at least $719.9 million through 2002.

The Committee is concerned about three separate issues raised by the Patent and Trademark Office authorization: first, the adequacy of the funding for the Patent and Trademark Office; second, the policies being followed by the Office with respect to user fees; and third, the development of an automation plan for the Office.

1. Level of appropriations

H.R. 1628, as introduced, authorized $84,739,000 to be appropriated for the expenses of the Patent and Trademark Office for fiscal year 1986. For fiscal years 1987 and 1988, the bill proposed open-ended authorizations. The $84,739,000 amount was a decrease of $16.9 million from the Office's 1985 appropriations of $101,631,000. The Office's 1986 budget submission explained that the Administration proposes to make up for the reduction in appropriations in 1986 by spending about $16,000,000 in "excess" user fees which have accumulated over the 1983 through 1985 period.

The 1986 budget submission and information provided to the Committee by the Office about cutbacks being made in the Office's 1985 programs have led the Committee to conclude that appropriations should not be reduced from the 1985 level.

The increase in user fees imposed by Public Laws 96-517 and 97-247 was substantial. The Committee envisioned that the revenue raised by the higher fees would be used to make major improvements in the operations of the Patent and Trademark Offices. When the Commissioner of Patents and Trademarks testified before the Subcommittee on Courts, Civil Liberties and the Admin-

istration of Justice in March 1982, he clearly stated that ". . . fees received by the Patent and Trademark Office would be available to use directly in improving service to inventors and industry." [1] The Administration's 1986 proposed budget, however, goes in the direction of using fee income to reduce the level of public support for the Office, not to improve the functioning of the Office.

The Committee was provided with information indicating that the Office is planning to reduce various programs by about $5.7 million dollars during 1985 in order to cover the cost of the pay raise received by government employees and other unbudgeted cost increases. The cuts being made by the Office in its 1985 programs include significantly reducing for the rest of 1985 the use of commercially available data bases by patent examiners for searching purposes; eliminating training for examiners; reducing programs for reclassifying the patent file by subject matter and checking file integrity; leaving unfilled the vacant positions at the Board of Patent Appeals; and terminating summer employment programs for students.

Testimony was presented that the Office is not doing enough to improve the quality of patent examining, and indeed may be reducing the level of quality of examining.[2] A survey of patent owners showed that 68 percent of the owners surveyed reported only "moderate" confidence in the validity of patents issued to them by the Patent and Trademark Office. The respondents felt highest priority should be given to improving the quality of patent examining.[3] Former Commissioner Gerald J. Mossinghoff, in a recently published interview, emphasized the need for improvement of the patent search files. He said, "One of the real scandals of the Patent and Trademark Office . . . is that 7 percent of our references that the examiners must look through are either missing or misfiled." [4]

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 clasification system will still be needed when the automated system becomes available.

The Office plans to cut back on legal and scientific periodicals and pamphlets used by patent examiners, even though the budget submission says "periodicals and pamphlets are essential in the patent and trademark examination process." The Office has reduced periodicals and pamphlets by over one-third for 1985 and proposes a similar level of expenditures for 1986.

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[1] See Hearings on Patent and Trademark Office Authorization before the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice, 97th Congress, 2d Sess. (1982) at 12,20.

[2] See Hearings on Patent and Trademark Office Authorization (1985) Before the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice, 99th Cong. 1st Sess. (1985) (statement of Donald W. Banner).

[3] Id.

[4] See 29 BNA's Patent, Trademark and Copyright Journal 490 (March 14, 1985).

The 1986 budget submission also is inadequate to insure timeliness of the services provided by the Office. The estimate in the budget that 107,000 patent applications will be filed in 1986 appears low, considering that over 109,500 were filed in 1984 and the recent trend in filing seems to be upward. The Office reports that the average time required to decide patent appeals is 24 months and will be up to 28 months in 1986. Backlogs of undecided trademark appeals also are at unacceptable levels and rising.

In addition, the Office's proposed 1986 budget makes cuts in administrative services. Administrative services include maintaining official records for inspection by the public, performing the initial clerical screening of the patent and trademark applications, and operating the internal mail and messenger systems. These administrative services have been the subject of public complaints in the past, and no justification is given for reducing the funding for them now.

The Committee accordingly concluded that the level of public support for the Patent and Trademark Office should not be reduced from the current level of $101,631,000. The Committee's conclusions is rooted in the proposition that patents issued by the Patent and Trademark Office must be reliable and the public must have confidence in the validity of patents if the patent system is to meet its objectives.

The Office has been vigorously pursuing the goal of "18 months by '87" in patent examining for the past three years. The Committee fully supports the efforts of the Office to examine patent applicants promptly. However, resources also must be allocated to improving the quality of issued patents. If appropriated, a portion of the $16.9 million support which the Committee has added to the authorization for 1986 should go toward improving the quality of patent examining. Improving the integrity of the search library is very important. The backlog of patent appeals is unacceptable large and growing larger. Immediate action should be taken to improve this situation.

In addition to holding the authorized level of public support for the Patent and Trademark Office for 1986 at the 1985 level of $101,631,000, the Committee is authorizing appropriations for the Office of $110,400,000 for fiscal year 1987 and $111,900,000 for fiscal year 1988. These amounts represent the appropriation levels which, together with fee income for those years, are needed to achieve program levels planned for the Office.[5] These figures reflect a calculation of the estimated program level provided to the Committee by the Department of Commerce minus estimated user fees for the fiscal year in question.

2. User fee policies

It is appropriate for the Committee to confirm and clarify the limitations on charging of user fees that were envisioned at the time of enactment of Public laws 96-517 and 97-247. In the House Report on Public law 96-517 [6] the Committee endorsed the premise

[5] See "Commerce Budget in Brief" for fiscal year 1986 at 53.

[6] See H.REP. No. 96-1307, Part 1, 96th Cong., 2d Sess. (1980), reprinted in [1980] U.S. CODE CONG. & ADM. NEWS 6460.

that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the Patent and Trademark Office by payment of fees. However, the Report envisioned certain limitations on the authority of the Commissioner to charge fees and use those fees for funding Office programs. The Committee recognized that it is not in the public interest to discourage the use of the patent and trademark laws by allowing the fees to rise to too high a level.

The Report identified three categories of Patent and Trademark Office costs: (1) costs which should be paid for entirely from appropriated funds; (2) costs which should be paid partly from appropriated funds and partly by user fees; and (3) costs which should be paid for 100 percent by user fees.

The Report noted that 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. The report gave the following examples of costs which should be paid for by appropriated funds:

> For example, the cost of executive direction and administration of the Office, including the Office of the Commissioner and certain agency offices involved with public information, legislation, international affairs and technology assessment. Maintaining the public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. The contribution to the World Intellectual Property Organization relative to the Patent Cooperation Treaty is a treaty obligation. These costs should be paid for entirely from appropriated funds.[7]

Public law 96-517 required that the costs of "actual processing" of patent and trademark applications were to be paid 50 percent from appropriated funds and 50 percent from user fees. Subsequently, in Public law 97-247, the committee enacted higher fees for application processing. The purpose of the higher fees was said to be "to double current fees as the means of making up for the difference between a lower level of taxpayer support and an increased total budget." [8] The rate of recovery of patent application processing costs from fees, however, was not to reach 100 percent until the mid 1990's, when patent maintenance fees will be fully in effect.[9]

Questions have arisen about using fee income to support the patent and trademark search rooms and libraries. These are the public search facilities located at the Patent and Trademark Office in Arlington, Virginia.

The public patent and trademark search rooms and 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.

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[7] Id at 6467.

[8] See H.REP. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.

[9] In Public laws 96-517 and 97-247, Congress for the first time established a system of patent maintenance fees. These fees, charged for maintaining a patent in force, apply only to patents issued after the effective date of the new laws.

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.

If the Office provides access through terminals in the search rooms to data bases not owned by the Office, the Office is authorized to collect a fee and pass it on to the owner. This section does not prohibit charging the public for copies of records of charging for an entirely new service not now provided.

Automation programs

The Committee is deeply concerned by the findings of the Comptoller General's report on the automation of trademark operations.[10]

The Comptroller General's report states that, in attempting to automate its trademark operations, the Office did not (1) thoroughly analyze user needs; (2) adequately assess the cost effectiveness of its systems; (3) properly manage three exchange agreement contracts; and (4) fully test one of its systems before accepting it from the contractor. The Comptroller General found that although the Office addressed these problems it still needs to do more. To address these concerns the Committee, through the Subcommittee on Courts, Civil Liberties and the Administration of Justice, agreed to two amendments.

The first amendment would preclude the Patent and Trademark Office from expending fees obtained from users of the patent and trademark system to acquire any automatic data processing resources during fiscal years 1986, 1987, and 1988. This amendment proceeds under the theory that unless the Patent and Trademark Office has to justify fully the obtaining of appropriated monies for development of an automation plan, the automation activities will not receive adequate Congressional review. Concern was expressed that the user fee money expended by the Patent and Trademark Office for automation-related activities was not considered by the Patent and Trademark Office to be subject to the Brooks Act.[11] The amendment, by precluding reliance on user fees for procuring automatic data processing resources, will insure that the Brooks Act is honored in the future.

The second amendment adopted by the Subcommittee precludes the Commissioner of Patents and Trademarks from using his exchange agreement authority under section 6(a) of title 35, United States Code, for exchange of items or services relating to automatic data processing resources during fiscal years 1986, 1987, and 1988. The Committee offers this amendment to insure that any agree-

[10] *See* letter from Acting Comptroller General to the Honorable Jack Brooks (dated April 19, 1985) and attachments.

[11] *See* Section 111 of the Federal Property and Administrative Services Act of 1949.

ments entered into by the Patent and Trademark Office involving automatic data processing resources are subject to the Brooks Act. By this amendment the Committee intends that it does not want the exchange agreement vehicle used to avoid in any way the congressional oversight contemplated by government procurement law.

Considered together, the two amendments accepted by the Committee will insure that the appropriation mechanism, rather than either user fees or exchange agreements, will be relied upon for the procuring of any automatic data processing resources by the Patent and Trademark Office during fiscal years 1986, 1987, and 1988.

The Committee continues to strongly support the concept of automating the patent and trademark search files. By adopting modern computer technology, the Office should be able to greatly improve the usefulness and reliability of the search files. The Committee urges the Office to take immediate action to insure that the management errors identified in the Comptroller General's report will not be allowed to occur again.

STATEMENT

The Committee—acting through the Subcommittee on Courts, Civil Liberties and the Administration of Justice—held one day of hearings on legislation (H.R. 1628) to reauthorize the Patent and Trademark Office. On March 21, 1985, the subcommittee received testimony from the Administration (Donald J. Quigg, Acting Assistant Secretary and Commissioner of Patents and Trademarks); Intellectual Property Owners, Inc. (Donald W. Banner, President); and the United States Trademark Association (William A. Finkelstein, Executive Vice-President).

In order to elicit a response to questions not asked and therefore not answered at the hearing, on April 9, 1985, the Chairman of the Subcommittee—Congressman Robert W. Kastenmeier—requested further information from the Patent and Trademark Office concerning a number of subjects. Congressman Mike DeWine had, in the interim, sent a similar letter. PTO submitted timely responses to both inquiries.

On April 19, 1985, the Comptroller General of the United States filed a report with the Honorable Jack Brooks, Chairman of the Committee on Government Operations. The GAO report concluded that PTO had been deficient in developing and implementing an automation plan for trademark records. GAO made several concrete recommendations. If these recommendations are not implemented, GAO further advised that PTO's authority to engage in exchange agreements be circumscribed.

On May 2, 1985, the Subcommittee on Courts, Civil Liberties and the Administration of Justice marked-up H.R. 1628.[12] After enact-

[12] The first amendment (offered by Mr. Moorhead) froze the authorization for fiscal year 1986 to what it was in fiscal year 1985. The amendment further added the Administration's proposed budget levels for fiscal years 1987 and 1988; froze trademark fees except for adjustments to reflect fluctations during the previous three years on the Consumer Price Index; and preclude the PTO from imposing fees for the use of the patent and trademark search rooms. The second amendment (offered by Mr. Brooks) prohibited the use of patent and trademark fees for procurement of automatic data processing resources, and also circumscribes use of exchange agreements that relate to automatic data processing resources.

ment of two amendments, the bill was ordered reported favorably by voice vote as a clean bill.

On May 8, 1985, the clean bill (H.R. 2434) was introduced by eleven members of the subcommittee: Kastenmeier, Moorhead, Brooks, Mazzoli, Synar, Schroeder, Berman, Boucher, Hyde, Kindness and DeWine.

On May 15, 1985, the full Committee considered H.R. 2434 and, a quorum of Members being present, ordered the bill favorably reported by voice vote. No objections were heard.[13]

SECTION-BY-SECTION ANALYSIS

Section 1—Authorization of appropriations

Subsection (a) authorizes appropriations for the Patent and Trademark Office for the payment of salaries and necessary expenses of the office. For fiscal year 1986, this section authorizes appropriations of $101,631,000; for fiscal year 1987, $110,400,000; and for fiscal year 1988, $111,900,000.

Subsection (a) also authorizes to be appropriated to the Patent and Trademark Office such additional amounts as may be necessary for each fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

Subsection (b) provides that funds made available by these appropriations are to be used to reduce by 50 percent the amount of the fees to be paid under title 35, United States Code, section 41(a) or 41(b), by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns so defined under section 3 of the Small Business Act (15 U.S.C. § 632).

Section 2—Appropriations authorized to be carried over

This section provides that fees collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended (15 U.S.C. § 1051 *et seq.*), and amounts appropriated under the authority of section 1 of the bill, may be carried over beyond the end of a fiscal year and remain available until expended. This section is not intended, however, to encourage accumulating and carrying over large amounts of excess fees.

The total resources for the Office in fiscal year 1986 (that is, the amount appropriated pursuant to this section plus fees collected pursuant to the patent and trademark laws, which will be available to the Office) are estimated to be $219.2 million; the total resources for fiscal year 1987 are estimated to be $234.9 million; and the total resources for fiscal year 1988 are estimated to be $237.3 million.

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[13] No amendments were offered. By unanimous consent, staff was authorized to make necessary technical and clarifying changes to the bill. Two technical and clarifying changes were made. First, section 4 of the bill was modified to use consistent terminology in achieving its goal: to prevent the Commissioner of Patents and Trademarks from imposing user fees for the use of public patent and trademark search rooms and libraries. Second, section 6 of the bill was clarified to allow the Commissioner to continue to use exchange agreements with bilateral and international intergovernmental organizations, such as the Japanese and European Patent Offices.

Section 3—Increases of trademark and certain patent fees prohibited

Section 3(a) prevents the Commissioner from increasing 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 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, except fees for new types of processing, materials or services.

Under current law (section 31 of the Trademark Act of 1946), fees for the filing or processing of an application for the registration of a trademark or other mark or for the renewal or assignment of a trademark or other mark will be adjusted no more than once every three years. Since the last adjustment occured on October 1, 1982, a fee adjustment is authorized to occur on or after October 1, 1985. A fee adjustment is not required every three years. A new three year period begins when the fees are adjusted.

Section 3(b) further prohibits the Commissioner from increasing patent fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments as described in section 41(f) of such title. The Commissioner also may not establish additional fees under such section during fiscal years 1986 through 1988, except fees for new types of processing, materials or services.

Current law (35 U.S.C. § 41(d)) provides that the Commissioner may establish fees for miscellaneous processing, services, or materials relating to patents not specifically set by Congress (*see* U.S.C. § § 41 (a) and (b)). The Commissioner's patent fees, already set under existing regulations to recover the estimated cost to the office of such processing, services, or materials are therefore "frozen" by section 3(b). The only exception is that the Commissioner may adjust fees on October 1, 1985, and no more often than every third year thereafter, to reflect any fluctuations occurring during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor.

Section 4—Fees for use of search libraries prohibited

Under section 4 of the bill, the Commissioner of Patents and Trademarks may not impose a fee for use of public patent or trademark search rooms or libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress. This section is in conformity with past pronouncements of this Committee. For example, in the Report on Public Law 96-517, the Committee stated: "Maintaining the public search room confers a general public benefit. . . . [C]osts should be paid for entirely from appropriated funds." [14] This section does permit charging for copies of records.

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[14] *See* H. Rep. No. 96-1307, Part 1, 96th Cong., 2d sess. (1980), *reprinted in* [1980] U.S. Code Cong. & Adm. News 6460, 6467.

Section 5—Use of patent and trademark fees prohibited for procurement of automatic data processing resources

Section 5 provides that 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, may not be used during fiscal years 1986 through 1988 to procure by purchase, lease, transfer, or otherwise automatic data processing resources (including hardware, software and related services, and machine readable data) for the Patent and Trademark Office. The net result of this section will be to bring the trademark automation system under Congressional oversight attendant to the appropriations process. The Committee expects the Patent and Trademark Office to prepare a plan for presentation to the Congress; said plan will delineate costs, explain method of financing and confront the issue of public access to government records.

Section 6—Use of exchange agreements relating to automatic data processing resources prohibited

Section 6 limits the authority of the Commissioner of Patents and Trademarks to use exchange agreements. The Commissioner may not exchange 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 through 1988. This section shall not apply to any agreement with a foreign government or bilateral or international intergovernmental organization relating to data for automation programs.

This section is derived from GAO's conclusion that the Patent and Trademark Office has attempted to avoid procurement laws through the use of exchange agreements to develop an automation system for trademark records. In scope, however, section 6 is broadly written so as to apply to patent records.

OVERSIGHT FINDINGS

The Committee finds that the stimulation of American inventive genius requires a patent system that offers our inventors prompt, consistent and effective protection for their inventions. The Committee further finds that not only the interests of trade and commerce of this country, but also consumer confidence in goods, are furthered by effective administration of this Nation's trademark laws. An effective Patent and Trademark Office is the cornerstone for reliable patent and trademark protection.

The Committee on the Judiciary has oversight responsibility over the Patent and Trademark Office in the Department of Commerce. In addition to its ongoing oversight, the Committee's Subcommittee on Courts, Civil Liberties and the Administration of Justice held an oversight hearing with respect to the Patent and Trademark Office on March 21, 1985. The Committee expects to confirm its oversight activities in the future.

NEW BUDGET AUTHORITY

In regard to clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, H.R. 2434 creates no new budget authority or increased tax expenditures for the Federal Government.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(1)(4) of rule XI of the Rules of the House of Representatives, the Committee finds that the bill will have no foreseeable inflationary impact on prices or costs in the operation of the national economy.

FEDERAL ADVISORY COMMITTEE ACT OF 1972

The Committee finds that this legislation does not create any new advisory committees within the meaning of the Federal Advisory Committee Act of 1972.

STATEMENT OF THE COMMITTEE ON GOVERNMENT OPERATIONS

In regard to clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Operations.

COST ESTIMATE

In regard to clause 7 of rule XIII of the Rules of the House of Representatives, the Committee has not received a cost-estimate from the Congressional Budget Office.

COMMITTEE VOTE

On May 15, 1985, H.R. 2434 was reported favorably by voice vote, no objection being heard and a quorum of Members having been present.

APPENDIX II

MATERIALS RELATED TO THE HEARING

MIKE DEWINE
7TH C... DIST, OHIO
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180 N. LIMESTONE STREET
SPRINGFIELD, OH 45501
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CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

March 22, 1985

The Honorable Donald J. Quigg
Acting Commissioner, Patents and Trademarks
U.S. Department of Commerce
Patent and Trademark Office
CP3 - Room 11D27
Washington, D.C. 20231

Dear Mr. Quigg:

Thank you very much for your testimony yesterday relating to the authorization of the Patent Office. Due to our rather severe restraint on time, I was unable to ask a number of questions which I would like to propose in this letter for your response. They are as follows:

-- The surplus of 16 million dollars which has built up over the past couple of years is or was turned over to the general Treasury. Was that mandated by law? Mr. Banner's statement suggests that the reduction in public funds for the Patent and Trademark Office will probably force drastic cuts in the program for Fiscal Year 1987. Is that a possibility?

-- Are there any intentions of cutting back Patent and Trademark Office programs for Fiscal Years 1986 or 1987?

-- The legislation sent up to the Hill provides for Fiscal Year 1986 $84,739,000, and in Fiscal Years 1987 and 1988, such sums as may be necessary. We have an unwritten policy with this Committee that opposes open-ended authorizations. Could we have some figures to consider for 1987 and 1988?

-- Prior to the effort to substantially improve the Patent Office it was common knowledge that anywhere from 2% to 25% of a particular search file was missing at any given time. This of course is critical because it determines the strength and validity of any patent issued. What efforts have been made to correct this problem?

-- Of all the patents issued, approximately what percent are eventually challenged in court, and of those challenged, what percent are held to be invalid?

-- In the U.S. Trademark Association's statement (page 8) they state that in the exchange agreement the Patent and Trademark Office has provided what amounts to a copyright to a private trademark search company for converting the information currently available in the Patent and Trademark Office into a machine-readable format. Has the Patent and Trademark Office in effect given control over the Government's official trademark records to a private trademark search company?

-- How much delay is there currently in deciding patent and trademark appeals, and how much will the delays be by the end of 1986?

-- Please explain briefly the nature of the barter contracts that the Patent and Trademark Office entered into with private trademark searching companies, and explain the status of the Office's current plans for buying out or modifying those agreements.

-- If the Office institutes an hourly charge for the public to use an automated trademark searching system, how much an hour do you expect the charge to be? Do you have any idea what the hourly charge would be in the future for automated patent searching?

-- In the patent search room, do you have any data on how many of the members of the public using the search room are inventors and scientific researchers, as opposed to employees of law firms and corporation patent departments?

The information provided by your office will be very helpful to me in making a decision when it comes time to mark-up the legislation. Thank you.

Sincerely,

Mike DeWine
Member of Congress

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

Honorable Michael DeWine
House of Representatives
Washington, D.C. 20515

Dear Mr. DeWine:

The following are the answers to the written questions you asked in your letter of March 22, 1985.

1. Question:

The surplus of 16 million dollars which has built up over the past couple of years is or was turned over to the general Treasury. Was that mandated by law? Mr. Banner's statement suggests that the reduction in public funds for the Patent and Trademark Office will probably force drastic cuts in the program for Fiscal Year 1987. Is that a possibility?

Answer:

The $16 million in surplus patent and service fees you refer to is not proposed to be turned over to the general revenues account of the Treasury in 1986. The PTO's current authorizing legislation, Public Law 97-247, authorizes the PTO to retain all fee collections within its own accounts until expended. The $16 million represents fees collected in excess of the amount planned during the first fee cycle (1983-1985) to meet budgetary requirements. This action was not mandated by law, but rather is proposed in the 1986 budget request as an offset to appropriated funds.

The Administration's projected program level for the PTO in FY 1987 is $235 million, of which $110 million is to be provided through appropriated funds. This represents an increase of approximately $25 million over the pending FY 1986 appropriation request. If the level of appropriated funds is not increased by the $25 million to $110 million, there would be a substantial adverse effect on the PTO's programs, although I am not prepared to say which programs at this time. The specifics of how any program reduction would be absorbed would depend on many factors including the level of appropriated funds and the projected revenues from user fees, which are based on three-year workload estimates and constitute the larger share of the PTO's total program budget. I would add, however, that the Administration has not significantly reduced the projected program level since I have been at the PTO and user fees have been received since October 1, 1982 substantially as planned.

2 Question:

Are there any intentions of cutting Patent and Trademark Office programs for Fiscal Years 1986 or 1987?

Answer:

Several programs will be scaled back in FY 1986. This will not, however, prevent the Office from accomplishing the major PTO goals as set forth by the Administration.

The President's Deficit Reduction Program will reduce FY 1986 funding by $7,923,000:

1)	Deficit Reduction Act of 1984 (Travel, printing, consultants)	$1,424,000
2)	Administration Cost Savings (10% cut)	$1,399,000
3)	GS 11-15 Constrictions	$ 355,000
4)	5% Pay Cut	$4,745,000

We have a number of major program initiatives planned for FY 1987:

1. Continuation of the patent pendency reduction program;

2. Expansion of the Automated Patent System (APS) beyond the pilot test examining group (assuming a successful Stage I test) into the remaining patent examining groups;

3. Improvement of the examiner's workstation area and increasing examiner access to commercial data bases; and

4. Improved quality of patent examination and the provision of better, more timely services to the public.

While the projected program level in any budget year is subject to adjustments by the Administration, I have no reason to believe that the PTO's FY 1987 program will not be in the $235 million range.

3. Question:

The legislation sent up to the Hill provides for Fiscal Year 1986 $84,739,000, and in Fiscal Years 1987 and 1988, such sums may be necessary. We have an unwritten policy with this Committee that opposes open-ended authorizations. Could we have some figures to consider for 1987 and 1988?

Answer:

As indicated in The Commerce Budget in Brief for FY 1986 the Administration is projecting a budget authority level of approximately $110 million for FY 1987 and $112 million for FY 1988. These amounts are our current planning estimates and do not reflect any increases such as, for example, legislatively mandated pay scale adjustments.

4. Question:

Prior to the effort to substantially improve the Patent Office it was common knowledge that anywhere from 2% to 25% of a particular search file was missing at any given time. This of course is critical because it determines the strength and validity of any patent issued. What efforts have been made to correct this problem?

Answer:

The PTO established a file integrity program several years ago to upgrade file integrity in the most active problem areas and special efforts have been made to promptly refile references removed from the search files. However, lasting improvements will only occur when our Automated Patent System is fully implemented in the next few years. In fact, later this year in Stage I of our Automation Plan, we will begin making all U.S. patents issued since 1975 available in an electronic file with complete integrity for on-line searching by all examiners.

5. Question:

Of all the patents issued, approximately what percent are eventually challenged in court, and of those challenged, what percent are held to be invalid?

Answer:

Between FY 1978 and FY 1983, 382,842 patents were issued while 2,126 patents were involved in patent suits. Therefore, the approximate percentage of patents challenged in court is 0.55%.

The last determination of the rate of invalidity of patents challenged in the courts was made by the Office in 1979. At that time the rate of patent invalidity, of those challenged in court between 1973-1977, was found to be 55%.

6. Question:

In the U.S. Trademark Association's statement (page 8) they state that in the exchange agreement the Patent and Trademark Office has provided what amounts to a copyright to a private trademark search company for converting the information currently available in the Patent and Trademark Office into a machine-readable format. Has the Patent and Trademark Office in effect given control over the Government's official trademark records to a private trademark search company?

Answer:

No. The search firm of Thomson & Thomson (T&T) is performing three basic services for the PTO under an exchange agreement: keying new application data and providing the computer processable data on magnetic tape (this was originally part of an exchange agreement with TCR Service, Inc., a firm which was subsequently acquired by T&T), scanning figurative trademarks and providing the digitized images on magnetic tape, and developing codes that indicate the content of figurative elements and providing them on magnetic tape. The PTO can disseminate the new application data in the same form provided to T&T to any other party at the same time that T&T is allowed to make use of it for their business purposes. In return, the PTO provides them new application data. The PTO also agreed to some restrictions in the searching method used by the public to access the digitized images and design codes provided by T&T in exchange for T&T's investment in the creation of the electronic data base. However, such restrictions in no way make it possible for T&T to copyright federal information or to restrict public access to other forms of the information. Under the present notice of proposed rulemaking, access to the data base with the full searching capabilities of the automated search system would be obtained by payment of a royalty for the use of the electronic data, until such time as the accumulated royalty payments would pay back T&T's investment. However, no decision has been made yet on this matter nor is there any intent to implement the proposed rules in the immediate future.

7. Question:

How much delay is there currently in deciding patent and trademark appeals, and how much will the delays be by the end of 1986?

Answer:

As of April 1, 1985, the pendency time for an appeal before the Board of Patent Appeals and Interferences is approximately twenty-four months. The number of appeals filed before the Board since October 1984 compared to the same period of 1983-1984 has increased, as the output of the Examining Corps has grown with the "18/87" pendency initiative. If this trend continues it is expected that during 1986 the pendency time for an appeal before the Board will be approximately 28 months.

Trademark appeals are now being decided by the Trademark Trial and Appeal Board on the average of 10 to 11 months after the appeal is taken. We are expecting an increase in the number of appeals because of the general rise in trademark application filings. If the increase in workload materializes, the delay in deciding trademark cases would grow by one month to approximately 12 months by the end of FY 1986.

8. Question:

Please explain briefly the nature of the barter contracts that the Patent and Trademark Office entered into with private trademark searching companies, and explain the status of the Office's current plans for buying out or modifying those agreements.

Answer:

At the outset of the trademark automation program, the Office had only a small amount of electronic data for use in the automated system, which data resulted from the electronic photocomposition of trademark registrations since the end of 1979. The Office had to convert the pre-1979 registrations as a critical first step in the trademark automation program. We decided to acquire this data separately from all other components of the computerized system so as to achieve maximum possible competition in the acquisition of the computer equipment, software and system operation services. In addition, it was known that firms specializing in automated trademark services or other automated information services were interested in developing electronic data bases, but only under joint ventures with the Office. The electronic trademark data base was developed under three separate exchange agreements; the first agreement was reached with Compu-Mark (CM) in January, 1983, and the other two with Thomson and Thomson (T&T) and TCR Service, Inc. (TCR), in May, 1983.

The agreement with CM was intended to satisfy approximately one-third of the Office needs for the electronic data base, specifically, the pre-1979 text backfile of active registration data - over 500,000 records of about 500 characters each - and of ownership assignment data - about 1.2 million records of over 100 characters each. CM agreed to code and convert to machine processable data the paper records furnished by the Office in exchange for a long-term supply of new registration data base tapes and other records.

Digitized figurative elements of trademarks constituted the second part of the electronic data base. Discussions with T&T were held following the announcement of the initial exchange agreement with CM, and T&T subsequently offered to digitize the backfile of design images using paper copies provided by the Office and to apply a coding system developed jointly by the PTO and T&T as the primary indexing tool for electronic retrieval of the digitized images. In return the Office agreed to supply future electronic and paper information.

The final segment of the electronic data base was acquired under a third agreement with TCR, which covered the keying of new application and other data from microform or paper copies provided to them by the Office. The Office also furnished some items of equipment to be used in the data creation process. TCR received the use of the electronic data and other information provided by the Office under the exchange agreement.

At the present time, the PTO has solicited proposals under Federal procurement regulations from both of the firms that would permit the PTO to "buy-out" the restrictions. These proposals have not yet been received. The Office also has solicited advice from users and other interested parties as to what course of action they would recommend with respect to the buy-out and the application of user fees for electronic access to the trademark data bases. No decision has been made on the buy-out at this time.

9. Question:

If the Office institutes an hourly charge for the public to use an automated trademark searching system, how much an hour do you expect the charge to be? Do you have any idea what the hourly charge would be in the future for automated patent searching?

Answer:

We had originally proposed a basic $40/hour access fee to recover the cost of the automated search system and a $30/hour royalty fee to compensate the participants in the PTO cooperative exchange agreements for elimination of certain restrictions. However, we are currently reviewing a wider range of options that reflect additional input from the user community and the public. A final decision has not yet been made.

The PTO currently does not have sufficient information available to it to develop the amount of a proposed user fee for the Patent Public Search Room. However, in a notice to the public in the Federal Register of June 14, 1984, the PTO has indicated an intent to follow the same marginal cost recovery principles used to propose fees for accessing the tradenark data base.

10. Question:

In the patent search room, do you have any data on how many of the members of the public using the search room are inventors and scientific researchers, as opposed to employees of law firms and corporation patent departments?

Answer:

No. The PTO only keeps records of the number of user passes issued. Since October 1, 1982 the PTO issued 9,957 permanent user's passes and approximately 25,000 temporary passes. Whenever passes are issued, permanent or temporary, there are no provisions for indicating occupations or reasons for requesting a pass.

Should you have any additional concerns please contact me.

Sincerely,

Donald J. Quigg
Acting Commissioner for
Patents and Trademarks

NINETY-NINTH CONGRESS

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U.S. House of Representatives
Committee on the Judiciary
Washington, DC 20515
Telephone: 202-225-3951

April 9, 1985

Honorable Donald J. Quigg
Acting Assistant Secretary and
Commissioner of Patents and Trademarks
U.S. Department of Commerce
CP-3, Crystal Plaza
Arlington, Va. 20231

Dear Mr. Quigg:

Thank you for your testimony before my subcommittee on March 21, 1985, relating to the Reauthorization of the U.S. Patent and Trademark Office for fiscal years 1986-1988. As you will recall, the hearing was expedited and I did not have a chance to ask every question that I had in mind at the time. At the termination of the hearing, I notified you that I would submit further questions to you in writing. Due to time constraints imposed on the Committee by the Budget Act, I would appreciate a reply by April 22, 1985.

My additional questions, which are divided into two categories, are listed below.

QUESTIONS RELATING TO PTO REAUTHORIZATION AND THE 1986 BUDGET

1. What programs does the Office plan to cut back this year if it is necessary for the Office to absorb the cost of the 3.5% pay increase for government employees?

2. If Congress approves the Administration's budget this year, with the reduced level of public support which depends on using all of the excess fee money, what will be the effect on the Office's programs in 1987 if the level of public support is not raised in 1987?

3. The budget forecasts 107,000 patent filings in 1985 and 1986: how high is the rate of filings running thusfar for 1985?

a. How much extra money is needed in the budget to

handle every additional thousand patent filings beyond the 107,000 predicted in the budget request?

4. How many cash awards were given to patent examiners in 1984? How large were the awards? How many of the awards were given for quantity of work and how many were given for quality?

5. At present, how much delay is there in deciding patent and trademark appeals, and how much will the delays be by the end of 1986?

QUESTIONS RELATING TO THE TRADEMARK AUTOMATION EXCHANGE AGREEMENTS

1. As part of its automation program the Office needs to have its paper trademark files key-entered on to computer tapes. The Office has used exchange agreements rather than a standard contract to obtain this service. In exchange for the database tapes, the Office provided copies of its files and agreed to certain restrictions. Would you briefly explain the nature of the original exchange agreements?

a. Why did you use exchange agreements rather than standard contracts to have your database prepared for your automated search systems?

b. What legal authority did the Office rely on to avoid ordinary Federal procurement laws with respect to the project? Did you seek advice from the General Counsel's Office in the Department of Commerce? If so, to what effect?

c. Apparently, in December of 1984 the Office announced its intention to "buy-out" the exchange agreements: where did you get the money for this "buy-out"? Is expenditure of this money authorized?

d. Did you wait to advertise until after you had signed the exchange agreements? Why?

e. What did you do to ensure that all parties received a fair and equal opportunity to reach agreements considering that the January 1983 announcement did not specify your needs? Furthermore, how could the announcement in 1983 ensure competition in 1982?

f. As part of your exchange agreements you also agreed to other restrictions on the Office and the public. For example, under these restrictions (1) the Office cannot allow public use of data through electronic dial up

access, (2) the Office cannot sell "Official Gazette" computer tapes for less than $42,200, a 1,400 percent increase over the old price, and (3) initially, the Office could not allow unrestricted public access through the Office's $10 million T-Search system to the automated trademark data. What analysis have you done to assess the potential impacts of these restrictions on the Office and the public?

g. How has or how will these restrictions hamper the Office's ability to meet future goals and objectives? For example, was PTO required to consult with exchange partners before it could allow the public to use its $10 million T-Search system to it full potential?

h. The initial exchange agreements stated that equal value was exchanged even though no value was placed on an agreed to public access restriction. Yet, when this restriction was lifted the Office agreed that the exchange partners should receive $3.18 million in compensation. Initially, why was not a value placed on the public access restriction?

i. Does the subsequent valuation prove that the inital values were incorrect and that this error resulted in the companies receiving about $6 million in valued items in contrast to PTO's $3 million benefit?

2. The Office's major computer acquisition for trademark automation is its $10 million T-Search System. Apparently, this system was unconditionally accepted by the Office in June 1984, prior to the full system being available for testing. Indeed, there were not any images in the system. During later testing with images in November 1984, I understood that T-Search did not meet performance requirement and the time it takes to search for a trademark averages is at least 25 percent longer than under the manual system.

a. Why did the Office unconditionally accept this system?

b. What leverage does the Office have to require contractor compliance with timeliness requirements?

3. In July 1984, the Office proposed a regulatory change whereby the public would pay $40 per hour to access a computerized search system "comparable and equivalent to the present manual system." If the public wanted access to the more sophisticated examiner search system an additional $30 per hour fee will be paid to the Office which, in return, will pay this royalty to the exchange agreement partners.

a. Ever since the creation of PTO access to the search file

has been free and open to the public; yet the Office is now proposing to charge up to $70 per hour for access to the same data. Did PTO perform an analysis of the impact of this decision on business or the public? Were any public interest groups, educational institutions, or libraries consulted on this change?

b. Considering PTO's plans to ultimately destroy paper files and the fact that the free TRAM System does not contain design marks, will the public be able to search all trademarks without paying a fee?

4. Isn't public access to trademark records a part of the "bargain" envisioned by the Constitution. In exchange for granting a trademark, the public receives something in exchange: consumer certainty about the identity of a product, accessibility of the public record, and so forth. Doesn't the PTO automation proposal violate the terms, or at least the spirit, of that bargain? How does this bargain apply to patents?

5. The Trademark Counterfeiting Act of 1984 imposes criminal liability for "knowingly" using a counterfeited mark. In addition, the Lanham Act is construed to put everyone on notice of the existence of fereally registered marks by operation of law. Won't a reduction in public access to the trademark registration system's records operate to reduce the effectiveness of the Lanham Act, and indeed, make it more difficult to obtain a conviction under the anti-counterfeiting statute?

6. If the Office institutes an hourly charge for the public to use automated trademark searching system, will this serve as a precedent for an hourly charge that could be applied to automated patent searching in the future?

7. In the patent search room, do you have any data on how many of the members of the public using the search room are inventors and scientific researchers, as opposed to employees of law firms and corporation patent departments?

8. How long does the Office plan to continue maintaining the paper search files in the trademark search room? The budget contains no funds for maintaining the paper files in 1986. Where will the money come from?

In closing, you should know that reflective and well-reasoned answers to these questions will provide a necessary supplement your oral and written testimony. Further, answers to these questions are an important aspect of the conscientious discharge of this subcommittee's oversight responsibility.

On March 22, 1985, Congressman DeWine asked you several questions in writing. I associate myself with his inquiry. You will note that, for the most part, we have posed different questions. To the extent that there is overlap, I apologize for increasing the workload of your office.

I look forward to an expeditious reply. As you can readily understand, the subcommittee will not be able to mark-up your reauthorization proposal in an effective and conscientious manner without answers to the questions posed by Congressman DeWine and myself. I will share your answers with all Members of the Subcommittee, including not only Congressman DeWine but also Congressman Jack Brooks who is very interested in these issues.

Thank you in advance for your cooperation and assistance.

Sincerely,

Robert W. Kastenmeier
Chairman
Subcommittee on Courts,
Civil Liberties and the
Administration of Justice

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

APR 22 1985

Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts, Civil
Liberties and the Administration of Justice
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The following are the answers to written questions you asked in your letter of April 9, 1985.

Questions Relating to PTO Reauthorization and the 1986 Budget

1Q. What programs does the Office plan to cut back this year if it is necessary for the Office to absorb the cost of the 3.5% pay increase for government employees?

A. During the month of March 1985, I conducted a zero-based analysis of all FY 1985 programs and their associated funding. The purpose of the review was threefold: (1) to address the absorption of the 3.5% ($3.0 million) pay raise; (2) to make unavoidable midyear program adjustments of $2.8 million which could not have been predicted 18 months earlier when the FY 1985 budget was formulated, e.g., new pay scale for examiners, higher postal and telephone rates, greater use of PTO services, etc.; and (3) to assure that adequate resources are available to meet the PTO's most important goals, namely the patent and trademark production and pendency goals (Plan 18 by 87 in Patents and Plan 3/13 in Trademarks) and the Stage I milestones of the Automation Master Plan.

As a result, I have implemented the following cost saving actions for the balance of FY 1985:

1. Hiring is restricted in those sections of the PTO which are not involved in any way with the three goals specified above, and training is restricted throughout the Office to meet only essential program needs;

2. Overtime in the Patent Documentation Organizations is sharply curtailed;

3. Examiner access to commercial data bases is significantly reduced;

4. Purchases of supplies and services are limited to those procurements which are absolutely essential to the Office's three major program goals;

5. Hiring of students under the Federal summer employment program is terminated; and

6. Only the most basic functions of the Office of Management and Organization and the Office of Technology Assessment and Forecast will be retained (all other functions will be discontinued only after the employees of these offices have been reassigned to other available positions in the PTO).

The action plan was presented to the Deputy Secretary of Commerce on April 4 and was subsequently approved by the Department of Commerce and the Office of Management and Budget as an appropriate response to the FY 1985 funding shortfalls. All of the decisions resulting from the review will be reevaluated during the summer months in light of the pending FY 1986 budget request and the proposed FY 1987 budget.

2Q. If Congress approves the Administration's budget this year, with the reduced level of public support which depends on using all of the excess fee money, what will be the effect on the Office's programs in 1987 if the level of public support is not raised in 1987?

A. The Administration's projected program level for the PTO in FY 1987 is $235 million, of which $110 million is to be provided through appropriated funds. This represents an increase of approximately $25 million over the pending FY 1986 appropriation request. If the level of appropriated funds is not increased by the $25 million to $110 million, there would be a substantial adverse effect on the PTO's programs, although I am not prepared to say which programs at this time. The specifics of how any program reduction would be absorbed would depend on many factors including the level of appropriated funds and the projected revenues from user fees, which are based on three-year workload estimates and constitute the larger share of the PTO's total program budget. I would add, however, that the Administration has not significantly reduced the projected program level since I have been at the PTO and user fees have been received since October 1, 1982 substantially as planned.

We have a number of major program initiatives planned for FY 1987:

1. Continuation of the patent pendency reduction program;

2. Expansion of the Automated Patent System (APS) beyond the pilot test examining group (assuming a successful Stage I test) into the remaining patent examining groups;

3. Improvement of the examiner's workstation area and increasing examiner access to commercial data bases; and

4. Improved quality of patent examination and the provision of better, more timely services to the public.

While the projected program level in any budget year is subject to adjustments by the Administration, I have no reason to believe that the PTO's FY 1987 program will not be in the $235 million range.

3Q. The budget forecasts 107,000 patent filings in 1985 and 1986: How high is the rate of filings running thus far for 1985?

A. Monthly filings for the first six months have averaged 9,527. On the basis of past history and incorporating seasonal adjustments this would project to approximately 116,000 receipts in FY 1985. It is not known if the current filing trend will continue through FY 1985 into FY 1986. We will closely monitor filing levels and will keep you informed of the actual rate of patent filings.

3aQ. How much extra money is needed in the budget to handle every additional thousand patent filings beyond the 107,000 predicted in the budget request?

A. The average cost of processing each 1,000 applications is currently $1,500,000. This estimate assumes the present mix of regular time and overtime by professional and clerical staff. Pre-examination costs (mailroom, application review, assignments, license and review), post-examination costs (preparation of patent issues and printing) as well as indirect overhead costs are also included in the estimate.

Small increases in application receipts, such as the 109,500 received in FY 1984, would not affect achievement of the 18-month pendency goal by the end of 1987, but would require some resources for additional examiner overtime. However, if filings were to continue at the 116,000 level in FY 1985-7, we simply could not reach 18 months pendency by 1987, even with additional resources, because our ability to train and supervise more new examiners is already at the saturation point.

4Q. How many cash awards were given to patent examiners in 1984? How large were the awards? How many of the awards were given for quantity of work and how many were given for quality?

A. For FY 1984, 452 cash awards and 29 other awards were given to patent examiners. The amount varied between $589 and $1,969. However, none of these awards were given solely for quantity or quality.

Patent examiners are eligible for two performance-based awards: a Quality Step Increase (QSI) and a Special Achievement Award (SAA), a cash award.

Award of a QSI requires that an examiner's performance in the areas of both quality and quantity be outstanding. In FY 1984, 29 examiners received QSI awards, representing salary increases totaling $45,037.00. A QSI award is an increase in the step or salary level at the examiner's grade level. Since it is a salary increase, it remains in effect beyond the year of the award.

The criteria for an SAA or cash award is achieving 110% of an assigned production goal (quantity) and a satisfactory level or higher in quality and other performance elements. For FY 1984, 452 patent examiners received these awards. The total distributed was $508,000. The SAA is a one-time payment which normally amounts to 3% of salary. A significant number of those receiving an SAA are rated outstanding in both quantity and quality and thus qualify for a QSI but prefer to receive an SAA because they are at or near the maximum step and salary level for their grade.

The quality, production and other requirements of examiner performance are set forth in performance appraisal plans for examiners. Quality is measured by the supervisor's evaluating a sampling of each senior examiner's work. Quality is measured for junior examiners through the daily supervision process.

5Q. At present, how much delay is there in deciding patent and trademark appeals, and how much will the delays be by the end of 1986?

A. As of April 1, 1985, the pendency time for an appeal before the Board of Patent Appeals and Interferences was approximately twenty-four months. The number of appeals filed before the Board since October 1984 compared to the same period of 1983-1984 has increased, as the output of the Examining Corps has grown with the "18/87" pendency initiative. If this trend continues, it is expected that during 1986 the pendency time for an appeal before the Board will be approximately 28 months.

Trademark appeals are now being decided by the Trademark Trial and Appeal Board on the average of 10 to 11 months after the appeal is taken. We are expecting an increase in the number of appeals because of the general rise in trademark application filings. If the increase in work-load materializes, the delay in deciding trademark cases would rise by one month to a level of approximately 12 months by the end of FY 1986.

Questions Relating to the Trademark Automation Exchange Agreements

1Q. Would you briefly explain the nature of the original exchange agreements?

A. At the outset of the trademark automation program, the Office had only a small amount of electronic data for use in the automated system, which data resulted from the electronic photocomposition of trademark registrations since the end of 1979. The Office had to convert the pre-1979 registrations as a critical first step in the trademark automation program. We decided to acquire these data separately from all other components of the computerized system so as to achieve maximum possible competition in the acquisition of the computer equipment, software and system operation services. In addition, it was known that firms specializing in automated trademark services or other automated information services were interested in developing electronic data bases, but only under joint ventures with the Office. The electronic trademark data base was developed under three separate exchange agreements; the first agreement was reached with Compu-Mark (CM) in January, 1983, and the other two with Thomson and Thomson (T&T) and Trademark Computer Research Services (TCR), in May, 1983.

The agreement with CM was intended to satisfy approximately one-third of the Office needs for the electronic data base, specifically, the pre-1979 text backfile of active registration data - over 500,000 records of about 500 characters each - and of ownership assignment data - about 1.2 million records of over 100 characters each. CM agreed to code and convert to machine processable data the paper records furnished by the Office in exchange for a long-term supply of new registration data base tapes and other records.

Digitized figurative elements of trademarks constituted the second part of the electronic data base. Discussions with T&T were held following the announcement of the initial exchange agreement with CM, and T&T subsequently

offered to digitize the backfile of design images using paper copies provided by the Office and to apply a coding system developed jointly by the PTO and T&T as the primary indexing tool for electronic retrieval of the digitized images. In return, the Office agreed to supply future electronic and paper information.

The final segment of the electronic data base was acquired under a third agreement with TCR, which covered the keying of new application and other data from microform or paper copies provided to them by the Office. The Office also furnished some items of equipment to be used in the data creation process. TCR also was to receive future electronic data and other information provided by the Office under the exchange agreement.

1aQ. Why did you use exchange agreements rather than standard contracts to have your database prepared for your automated search system?

A. While the public has complained that exchange agreements were used instead of standard contracts, exchange agreements were used because they were quicker and more in keeping with the basic nature of what was to be achieved, an exchange of information in one format for information in another format. Furthermore, Congress did not appropriate money for standard contracts and funds from fee recovery were not yet available, making exchange agreements an even more obvious choice.

In Public Law 97-247, Congress reaffirmed the authority of the Commissioner of Patents and Trademarks to carry out "exchanges of items or services regarding domestic and international patent and trademark law for the administration of the Patent and Trademark Office", which clearly encompasses creating a trademark data base through cooperative ventures of the type described above. Expertise in creating electronic trademark data was considered essential in the preparation of the electronic trademark data base and such expertise was limited to very few specialized firms, all of which were well known to the Office. It was also considered essential that the Office participate directly in the development of these highly specialized data bases.

1bQ. What legal authority did the Office rely on to avoid ordinary Federal procurement laws with respect to the project? Did you seek advice from the General Counsel's Office in the Department of Commerce? If so, to what effect?

A. The Office did not use the 6(a) authority to avoid procurement laws. We believed then as we do now that we are

uniquely authorized to carry out our programs using joint ventures whenever appropriate to promote the dissemination of patent and trademark information to industry and the public. Section 6(a) clearly applied to this situation and authorized the Office to enter into such exchanges. Consequently, the agreements were not procurements in the conventional sense. The Office relied on its Solicitor and the Department of Commerce General Counsel for legal advice on the applicability of 35 U.S.C. 6(a) to these specific agreements before they were signed. The attached letter to the General Accounting Office from the Solicitor confirms his earlier views on this issue. I understand a similar letter has been prepared for the signature of the Department's Acting General Counsel.

1cQ. Apparently, in December of 1984 the Office announced its intention to "buy-out" the exchange agreements: where did you get the money for this "buy-out"? Is expenditure of this money authorized?

A. The DOC requested and the OMB approved the apportionment of approximately $1.2 million in surplus trademark fees, which had accumulated by the end of 1984, for the purpose of buying the rights to allow unrestricted public use of the electronic data base in public search facilities. While the funds have been apportioned and the option of purchasing the data bases is being considered under Federal Procurement Regulations, no decision has been made as of this date.

1dQ. Did you wait to advertise until after you had signed the exchange agreements? Why?

A. For at least six years prior to the CM agreement, the PTO actively but unsuccessfully pursued the acquisition of the two extant machine processable text data bases of federal trademark registrations: T&T's and TCR's. During 1982 discussions were held with three other organizations - Pergamon, Mead Data Central and General Electric - regarding a cooperative exchange agreement approach to developing an electronic trademark data base. Those discussions also were unsuccessful. Only after the CM agreement was announced did any genuine cooperative venture offers actually materialize.

The first agreement with CM was announced after the agreement was signed; however, in a statement signed by the Commissioner on January 11, 1983, and actually published as a February 8, 1983 announcement in the Official Gazette and a January 27, 1983 publication of the Commerce Business Daily, the Office clearly stated the following:

"Under the provisions of Section 6(a) of title 35, United States Code, the Commissioner of Patents and Trademarks has entered into an exchange agreement with N.V. Compu-Mark S.A., an international firm headquartered in Mortsel, Belgium, that is involved in world-wide trademark searching, for the preparation of a computer data base of the text of all active trademark registrations. In return, the Patent and Trademark Office will provide Compu-Mark with copies of selected Office documents, records and trademark information on computer tapes and future updates to the data base through 1992.

"The PTO would welcome proposals from other interested suppliers to provide the same or equivalent materials and services. Proposals received by Mar. 31, 1983 will be evaluated and considered by the Office.

"Additional information, including copies of the PTO-Compu-Mark agreement, may be obtained from: J. Howard Bryant, Administrator for Automation, U.S. Patent and Trademark Office, Washington, D.C. 20231. Telephone (703) 557-3967."

Even after the expiration of the cited March 31, 1983 closing date, the Office publicly restated on numerous occasions that it was prepared to enter similar non-exclusive agreements and in fact had made multiple copies of the source paper documents provided to CM, precisely in anticipation of this contingency. Unfortunately, no party elected to take advantage of the opportunity.

1eQ. What did you do to ensure that all parties received a fair and equal opportunity to reach agreements considering that the January 1983 announcement did not specify your needs? Furthermore, how could the announcement in 1983 ensure competition in 1982?

A. As indicated in the response to 1.d., the Office actively pursued agreements over many years with every interested vendor known to it and, after executing the first agreement, publicly announced that it would enter the identical agreement with other parties; i.e., the Office was prepared to provide the same keying specifications and source documents to them. The conditions were both fair and equal since all parties had the same opportunity under identical circumstances. There was nothing to compete since the offer was open to anyone who wished to take advantage of it.

lfQ. As part of your exchange agreements you also agreed to other restrictions on the Office and the public. For example, under these restrictions (1) the Office cannot allow public use of data through electronic dial up access, (2) the Office cannot sell "Official Gazette" computer tapes for less than $42,200, a 1,400 percent increase over the old price, and (3) initially, the Office could not allow unrestricted public access through the Office's $10 million T-Search system to the automated trademark data. What analysis have you done to assess the potential impact of these restrictions on the Office and the public?

A. The Office agreed that, with respect to the data the three companies created, it would only provide electronic access to the data in the Trademark Search Room and in our network of more than fifty Patent Depository Libraries. The Office also agreed that it would provide access through techniques which were comparable and equivalent to searching through the existing paper files. The Office had no plans at that time, nor does it have plans now, to provide any other form of remote electronic access to the Office's automated trademark system in direct competition with commercial search firms that disseminate such information to the public. From a technological and cost perspective, the electronic dissemination of image data - designs and other figurative elements - was expected to be impractical during the term of the agreements. Therefore, the restrictions were projected to have little, if any, effect on the public. Moreover, it must be understood that there were no restrictions on public access to the electronic data base; i.e., the data base was the identical one proposed for use by the Office for its internal purposes. What was restricted were the automated techniques by which such data were accessed. The public could use techniques that were defined as comparable and equivalent to those offered to the public in the paper search file but not as sophisticated as those planned for use by PTO's examiners, which use Boolean logic and phonetic searching software.

The $42,300 sales price for the Official Gazette tapes was set by the Office before any exchange agreement was signed. In setting that price, the Office followed OMB guidelines to recover the fair market value for the tapes. Previously, the price had been based only on magnetic tape duplication costs, as set by National Technical Information Service. Thus the sales price is not a restriction but rather a reaffirmation of the Office's policy to recoup the fair market value of its data base tapes.

As indicated above, the Office agreed to limit public access to electronic techniques that were considered comparable and equivalent to manual searching techniques. This searching concept was announced to the United States Trademark Association in May, 1983, but there was no reaction to it until the following year. Then, the National Coordinating Committee (an organization comprised of 24 national and local bar associations and trade associations) suggested removing the restriction in the agreements through negotiation or, if necessary, a royalty payment. This suggestion was what led to the early 1984 proposal to explore the possibility of a "buy-out" of the agreements.

The Office performed a preliminary analysis of the impact on small businesses and the public of charging a fee for access to the computerized search system. The regulatory changes needed were published for comment in the Federal Register of August 7, 1984, together with a notice that a public hearing would be held on September 5, 1984. While the period for oral comment at the hearing ended on September 5, 1984, the date for submission of written comments was extended to September 25, 1984. Other than a few general assertions of adverse economic impact, no substantive information supporting that assertion has been received to date.

The Office did not consider that the restrictions to which it agreed would have any detrimental impact on Office operations and, in fact, considered them to be entirely consistent with the policy of not competing with the private sector. If any adverse economic impacts were to occur, the Office believed the commercial search firms with whom it exchanged data would most likely be affected, but such concerns were eliminated during the negotiation of the exchange agreements.

As to the subsequent analysis of the public's comments, the PTO has sought the advice of various members of the public sector and is evaluating all available options, including a buy-out of the rights in the data base. No decision has yet been made on the matter.

19Q. How has or how will these restrictions hamper the Office's ability to meet future goals and objectives? For example, was PTO required to consult with exchange partners before it could allow the public to use its $10 million T-Search system to its full potential?

A. As indicated in earlier answers, the agreements will not hamper the Office's ability to meet its future goals and

objectives. The Trademark bar and a small group of searchers of the trademark records who provide commercial search services to their clients have recently identified new and significantly different system and data base requirements, such as a more rigorous quality standard for data base elements. Such requirements go well beyond fulfilling the Office's mission of providing reasonable access to public records. Moreover, despite originally having agreed in principle to the "buy-out", the National Coordinating Committee now opposes the royalty solution, which required consultation with the exchange partners to address the "comparable and equivalent" searching limitations. The NCC and the USTA have recently stated that all restrictions should be eliminated by negotiation or purchase of unrestricted rights to access the data at no cost to the searcher, preferably through the appropriation of taxpayer funds by the Congress.

1hQ. The initial exchange agreements stated that equal value was exchanged even though no value was placed on an agreed to public access restrictions. Yet, when this restriction was lifted the Office agreed that the exchange partners should receive $3.18 million in compensation. Initially, why was not a value placed on public access restriction?

A. The procedure used to value the exchange items basically involved the recipient placing a value on what was received. The exchange partners did not place a stated value on such limitations as were provided, even though the limitations were an important consideration during their negotiations. Without such restrictions, the exchange partners would not have been willing to invest substantial sums, which the Office estimated in 1984 to be $3.18 million, to create and provide data which in turn would be used to compete with them in their primary business of providing automated trademark data services. No value was placed on allowing these limitations since the issue did not arise, as such, during the discussions. In retrospect, had the issue arisen, we would not have been able to offer then, or now, an amount of value for such restrictions - only the exchange partners could do that.

1iQ. Does the subsequent valuation prove that the initial values were incorrect and that this error resulted in the companies receiving about $6 million in valued items in contrast to the PTO's $3 million benefit?

A. The original valuation was based on estimated worth of the exchange items to the recipient. The PTO received data it estimates would actually have cost $3.18 million to produce under government procurement. The estimates were derived from comparable cost data available under a

contract used by the PTO to capture other data in electronic form for photocomposition of patent information. Our cost estimates have not changed. The $6 million figure is the same $3.18 million expressed as the time value of money projected to be recovered under the royalties over a period of 10 years.

2Q. The Office's major computer acquisition for trademark automation is its $10 million T-Search System. Apparently, this system was unconditionally accepted by the Office in June, 1984, prior to the full system being available for testing. Indeed, there were not any images in the system. During later testing with images in November 1984, I understood that T-Search did not meet performance requirements and the time it takes to search for a trademark averages is at least 25 percent longer than the manual system.

2aQ. Why did the Office unconditionally accept this system?

A. On May 15, 1984 the contractor, SDC, notified PTO that all system hardware, system software, and search software were ready for final testing and evaluation. At that time the PTO had not furnished the images to be loaded into the search data base. During the period May 16 to June 19, 1984, the PTO conducted general functional acceptance tests of the T-Search system.

The system hardware and system software were tested under the specifications of section E.8 of the Request For Proposals. During a period of thirty (30) consecutive days of operation, no downtime due to machines and/or software failure was recorded. The T-Search hardware and software were accepted on June 21, 1984, not unconditionally, but specifically subject to the very terms and conditions of the contract.

During the same period another set of functional acceptance tests was performed testing three contract requirements: (1) general operating, functional and user-friendly features of the terminals and search software, (2) search completeness, and (3) search performance. All functional search requirements were met by the T-Search system, all test searches were found to be complete as compared to a manual search of the same mark, and the average search time was 14.7 minutes for searches conducted under a simulated heavy workload.

As with any automated system, each time a software enhancement is made, or the system configuration changes, or the data base modified, functional and performance tests must be conducted. Thus, on November 28, 1984,

after several software enhancements and the loading of the images into the search data base, another functional test was conducted. During this test the PTO used a search model to simulate the performance of the search terminals under a peak time operating environment. The test was completed on December 7, 1984 with the following results: the general operating, functional and user-friendly features performed satisfactorily; search completeness was met; under load, performance timing remained an area of concern. Based on the test, the average search time was between 18.45 and 23.26 minutes. These timing results were inconclusive since the model was operating significantly above the searching characteristics identified in the attachments to the RFP, the acceptance team searchers logged on and off after each search rather than searching according to search characteristics, and the number of design images reviewed was significantly greater than the RFP search characteristics. In a letter to SDC dated December 20, 1984, the PTO asked SDC to resolve the deficiencies of the system. On February 13, 1985, SDC notified the PTO that all modifications had been made. On April 1, 1985 the PTO conducted a detailed functional acceptance test, this time using a model which performed within the search characteristics. All general operating, functional and user-friendly requirements performed satisfactorily, all searches met the completeness test, and the average search time with 54 terminals operating was 11.29 minutes (8.10 minutes for a word mark search and 16.17 minutes for a design search). Thus, SDC has addressed satisfactorily all functional areas of concern under the contract.

2bQ. What leverage does the Office have to require contractor compliance with timeliness (performance) requirements?

A. Under the ongoing contract, the contractor is required to maintain the performance level stipulated in the contract, subject to increasing levels of penalty for failure to maintain the required level of performance or system availability. Section F.4.4.1 Availability states that for the contractor to meet full availability "less than 25% of system end users experience a 25% or greater increase in system response time". System response time is defined as "the average search time from search request to completed search for Trademark Examiners using a 2 month moving average of the most recent two (2) months". Additionally, if the contractor fails to provide full availability at the 90% level or greater, the PTO can invoke its remedies under the default or liquidated damages provisions of the contract. The contractor knows that payment for the system can and would be withheld if the system fails to meet these terms and conditions. The Office is satisfied that adequate contractual leverage exists and there is no indication in the contractor's past performance to suggest that it will not continue to meet its commitments and obligations.

3aQ. Ever since the creation of PTO, access to the search file has been free and open to the public; yet the Office is now proposing to charge up to $70 per hour for access to the same data. Did PTO perform an analysis of the impact of this decision on business or the public? Were any public interest groups, educational institutions, or libraries consulted on this change?

A. As matters of fact, (1) since October 1, 1982, the costs of the Trademark Search Room have been paid for by a portion of the trademark fees received from all applicants and registrants, and (2) the majority of those who have commented on the proposal are users of the Trademark Search Room who reside in the Washington, D.C. metropolitan area and provide search services for clients located throughout the United States.

The PTO analysis of the proposed user fee recognized that Congress has not appropriated one cent of taxpayer support for the entire trademark operation since October 1, 1982. Thus, the PTO has two realistic options: (1) to charge those who use the Trademark Search Room for the benefit they receive; or (2) to subsidize access to the automated trademark records through higher fees to all users of the trademark system. The decision was based on the premise that it was more appropriate to charge recipients of special benefits for those benefits. We did consult with users of the Trademark Search Room, the Trademark Public Advisory Committee, the United States Trademark Association, the National Coordinating Committee and the libraries who represent the PTO's nationwide network of Patent Depository Libraries. In addition, the regulatory changes needed were published for comment in the Federal Register of August 7, 1984 together with a notice that a public hearing would be held on September 5, 1984. The period for comment was to end on September 5, 1984 but was extended to September 25, 1984. All members of the public were given an opportunity to submit written comments and to testify at the hearing.

3bQ. Considering PTO's plans to ultimately destroy paper files and the fact that the free TRAM System does not contain design marks, will the public be able to search all trademarks without paying a fee?

A. The TRAM system is not a search system, as such, but has been designated as the electronic trademark registry. Records in TRAM are searchable by registration and serial number. A record is included for all registered trademarks, including designs. The Office aiso plans to maintain the bound volumes of all printed registrations as is currently being done. Public access to the bound

volumes and TRAM records will continue to be provided free of charge. An option that I believe has considerable merit is the provision of some amount of free annual use of the automated trademark search system for everyone.

4Q. Isn't public access to trademark records a part of the "bargain" envisioned by the Constitution. In exchange for granting a trademark, the public receives something in exchange: consumer certainty about the identity of a product, accessibility of the public record, and so forth. Doesn't the PTO automation proposal violate the terms, or at least the spirit, of that bargain? How does this bargain apply to patents?

A. There is no "bargain" envisioned by the Constitution between a trademark owner and the public. The "bargain" envisioned in Article 1, Sec.8, Cl.8 of the Constitution does not encompass trademarks. Nor is there any "exchange" for registering a trademark. The Federal trademark law does not create rights in a trademark; it merely gives the trademark owner certain procedural benefits.

The "bargain" envisioned in the Constitution would apply to patents. The public is entitled to a disclosure of the invention in exchange for the exclusive property rights given an inventor by a patent. However, there are many ways the disclosure can be effected.

5Q. The Trademark Counterfeiting Act of 1984 imposes criminal liability for "knowingly" using a counterfeited mark. In addition, the Lanham Act is construed to put everyone on notice of the existence of federally registered marks by operation of law. Won't a reduction in public access to the trademark registration system's records operate to reduce the effectiveness of the Lanham Act, and indeed, make it more difficult to obtain a conviction under the anti-counterfeiting statute?

A. Our automated trademark search system will provide more complete files and better access to our trademark registration system's records. Therefore, there will be no effect on either the Lanham Act or the ability to obtain a conviction under the anti-counterfeiting statute.

6Q. If the Office institutes an hourly charge for the public to use automated trademark searching system, will this serve as a precedent for an hourly charge that could be applied to automated patent searching in the future?

A. No decision has yet been made regarding an hourly charge for public use of the automated trademark searching system, but if a charge is made, it would not necessarily constitute a precedent for patents. However, the guidelines

published in the Federal Register on June 14, 1984 do contemplate such an hourly charge for automated patent searching.

7Q. In the patent search room, do you have any data on how many of the members of the public using the search room are inventors and scientific researchers, as opposed to employees of law firms and corporation patent departments?

A. No. The PTO only keeps records of the number of users passes issued. Since October 1, 1982 the PTO issued 9,957 permanent user's passes and approximately 25,000 temporary passes. Whenever passes are issued, permanent or temporary, there are no provisions for indicating occupations or reasons for requesting a pass.

8Q. How long does the Office plan to continue maintaining the paper search files in the trademark search room? The budget contains no funds for maintaining the paper files in 1986. Where will the money come from?

A. The PTO will maintain the paper search file until a reliable alternative source of this information is available. Funds for maintaining the paper file will be reflected in the new trademark fee schedule which will take effect on October 1, 1985.

I will send you a copy of the letter I send to Congressman DeWine in response to his questions. Should you have any additional concerns please contact me.

Sincerely,

Donald J. Quigg
Acting Commissioner of Patents and Trademarks

Enclosure

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

APR 10 1985

Richard R. Pierson, Esq.
Associate General Counsel
Office of the General Counsel
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Pierson:

This responds to your letter of December 26, 1984, requesting my views on an additional question concerning exchange agreements entered into by the Patent and Trademark Office pursuant to Section 6(a) of Title 35, United States Code. The agreements, as identified in a letter concurrently sent by you to the General Counsel of the Department of Commerce, are the current agreements of the Patent and Trademark Office with N.V. Compu-Mark S.A. and Thomson & Thomson. They replaced three prior agreements with, respectively, N.V. Compu-Mark S.A., Thomson & Thomson and TCR Service, Inc., prior to the latter's acquisition by Thomson & Thomson.

In your letter you ask, "[d]oes the Brooks Act, 40 U.S.C. §759, and Subpart 1-4.12 of Title 41, Code of Federal Regulations, apply to these exchange agreements?"

We believe they do not. They apply if we procure. But we did not "procure" within the intended meaning of "procurement" in the Brooks Act.

The objective of the agreements is to obtain data bases in exchange for trademark file data - in short, information. The agreements do not specify manipulation of the data by computer or other ADP equipment. How the data bases shall be prepared is left up to the option of the firms with which the agreements were executed. Any use of ADP equipment would be incidental and not the objective of the agreements.

We believe the legislative history of the Brooks Act makes it quite clear that Congress intended the Act to apply to the procurement of ADP by an expenditure of funds only, and only to items that have general purpose applicability. See Senate Report No. 938, 89th Cong., 1st Sess. (1965), dated October 22, 1965, reprinted in [1965] U.S. Code Cong. & Ad. News 3859.

The Act provides for a revolving fund. 40 USC §759(c). The Report states:

> GSA would administer an ADP "revolving fund" which should provide (1) more adequate management information, (2) optimum utilization, and (3) economic acquisition of Government ADP. Id at 3862.

None of these objectives would be met if the Brooks Act were to be applied to the Patent and Trademark Office's exchange agreements.

The first objective of providing more adequate management information is intended "to maintain * * * budgetary control over ADP expenditures". Id. at 3881. The exchanges, however, do not involve expenditures.

The second objective of providing for optimum utilization is intended to improve "the sharing program" and establish "multi-agency ADP service centers." Id. at 3882. The data bases acquired or to be acquired by the Patent and Trademark Office, however, will have no use in the Government except in connection with the registration of trademarks by the Patent and Trademark Office. The function of registering trademarks is exclusive to the Patent and Trademark Office and carried on nowhere else in the Government.

The third objective of providing for economic acquisition of ADP by the Government is intended to strengthen the Government's bargaining position through "volume acquisitions" (Id. at 3883-5) with "all ADP purchase and lease money in 'one pocket'," Id. at 3885. However, as indicated above, the data bases acquired or to be acquired by the Patent and Trademark Office are specially designed to meet the unique needs of the Office in registering trademarks.

The Report also indicates a Congressional intent to provide "means for making essential 'lease versus purchase' evaluations on the basis of the benefit to the Government as a whole". Id. at 3887. An option to lease or purchase, however, is wholly irrelevant in connection with an exchange agreement.

Finally, the Report indicates an intent of Congress to limit the coverage of the Brooks Act to "ADP systems except those of the most unique application". Id. at 3885-6. See also, Id. at 3863.

For the foregoing reasons, the Patent and Trademark Office believes that the Brooks Act and Subpart 1-4.12 of Title 41, Code of Federal Regulations, do not apply to the exchange agreements.

Our responses to the four issues (a) through (d) that are raised in your letter are as follows:

(a) No. The PTO could not achieve the automation of the trademark search files by purchasing, leasing, or otherwise acquiring ADP equipment in lieu of the items or services provided under the agreements. There is no equipment available that will take the place of the data bases. Moreover, simply obtaining the data bases was not intended to, and cannot in itself, achieve the result of automating the trademark search files. In addition, a processing system and software are needed. Display terminals and printers are also needed. These items have been procured by contract from SDC under Contract No. PT-83-SAC-00321.

(b) No. However, the preparation of the data bases may involve the incidental use of computers.

(c) No. We believe the exchanges by which we obtain the data bases from T & T and Compu-Mark are exchanges of information which fall squarely within the terms of Section 6(a) of Title 35, United States Code, which authorize the Commissioner to carry on "exchanges of items or services regarding domestic and international * * * trademark law or the administration of the Patent and Trademark Office." Further, we submit that Section 759(b) was not intended to apply to exchanges of information but rather to ADP equipment. Accordingly, for this further reason, neither of our exchanges would be a "lease * * * or otherwise, * * *" as those terms are used in Section 759(b).

(d) No. Neither exchange is the procurement of "commercial ADP services" or "commercial ADP support services" as those terms are used in Subpart 1-4.12.

Sincerely,

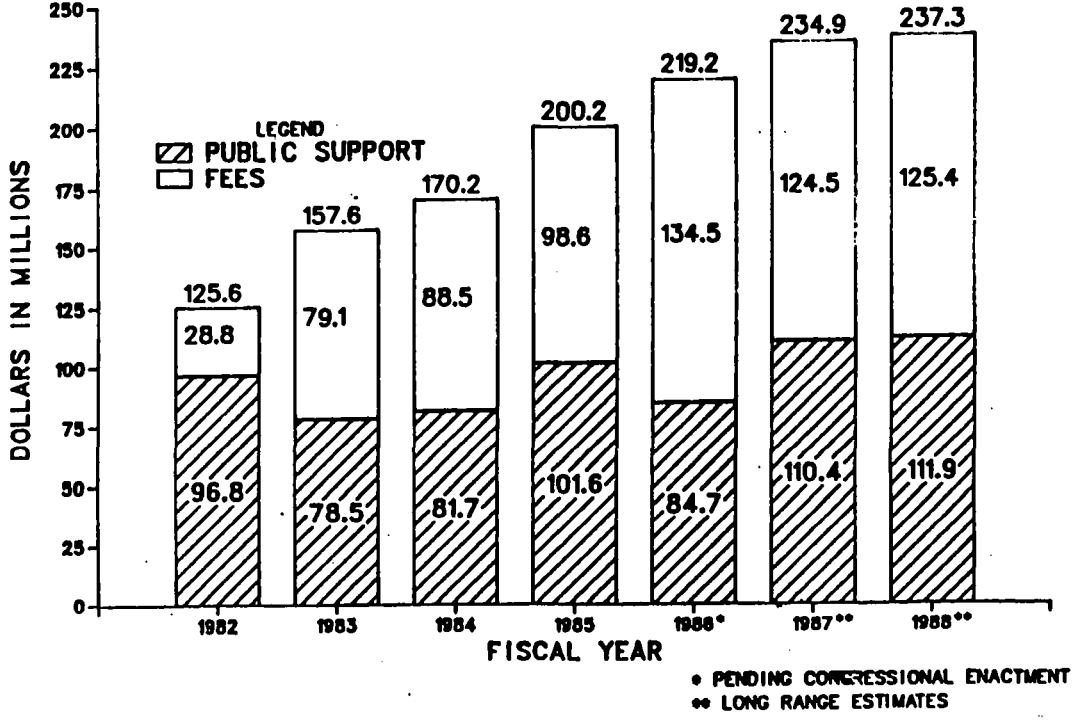
Joseph F. Nakamura

Joseph F. Nakamura
Solicitor

UNDERLYING BUDGET PRINCIPLES

- Filings have increased since fees were increased.
- The small entity subsidy works.
- Patent and trademark production and pendency goals established in 1982 are being met or exceeded.
- Automation cost saving estimates are real, not mythical with first of predicted automation saving occurring in FY 86.
- Trademark search room user fee proposals will be resolved prior to the FY 1986 appropriation. Similar Patent Search Room user recovery guidelines have not been opposed.
- Maintenance fees are being received as predicted.
- Trademark users understand that budget authority for the trademark process is unrealistic in light of current situation.
- Patent users are concerned with escalating reliance on user's fee to offset appropriations beyond that foreseen in P.L. 97-247.

PTO ENACTED PROGRAM LEVEL AND FEES
FY 1982–1988



PATENT AND TRADEMARK OFFICE
FEE INCOME ESTIMATES
1986-1988 FEE CYCLE

TRADEMARK PROCESS FUNCTION

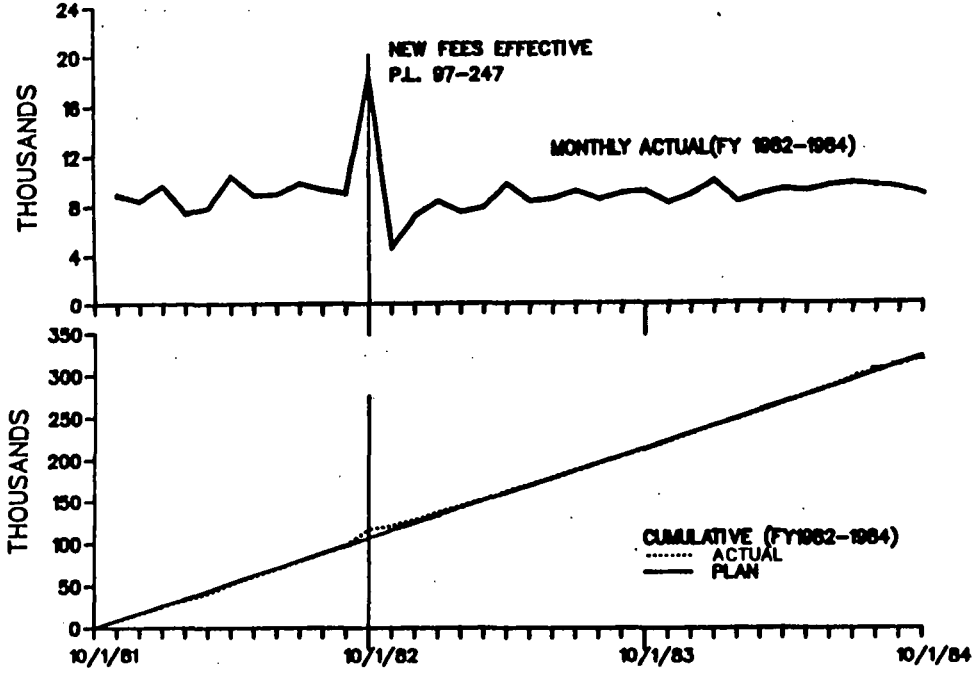
Fee Code	Fee Title	Current Fee Schedule	Estimated Unit Cost Amount	FY86-FY88 Proposed Fee Schedule
301	Appln. for Registration	$175.00	$200.00	$200.00
302	Appln. for Renewal	300.00	25.00	300.00
303	Surcharge for Late Renewal	100.00	10.00	10.00
304	Publication of Mark Under Section 12c	100.00	25.00	25.00
305	Issuing New Certificate of Registration	100.00	45.00	45.00
306	Cert of Correction of Applicant Error	100.00	45.00	45.00
307	Filing Disclaimer to Registration	100.00	45.00	45.00
308	Filing Amendment to Registration	100.00	45.00	45.00
309	Filing Affidavit Under Section 8	100.00	25.00	25.00
310	Filing Affidavit Under Section 15	100.00	25.00	25.00
311	Filing Affidavit Under Section 8 & 15	200.00	25.00	25.00
312	Petitions to the Commr.	100.00	65.00	65.00
313	Petition to Cancel	200.00	235.00	235.00
314	Notice of Opposition	200.00	235.00	235.00
315	Ex Parte Appeal to TTAB	100.00	120.00	120.00

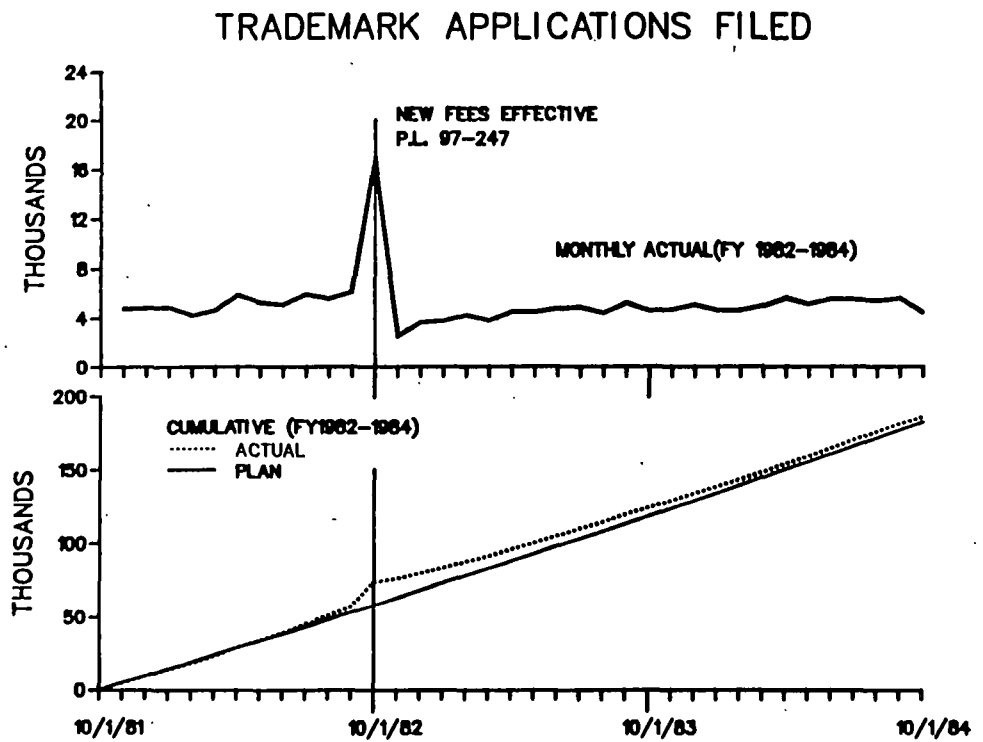
TRADEMARK SERVICE FUNCTION

403	Certify TM Records, per Certificate	3.50	15.00	15.00
405	Recording TM Assignment Documents	100.00	10.00	10.00
406	Recording Each Add'l Mark	20.00	10.00	10.00
408	Copy of Reg Mark with Title or Stauts	6.50	10.00	10.00

Total Estimated Cost FY86-88	$46.5 million
Revenue at Current Fee Schedule	53.6 million
Variance	$ 7.1 million
Total Estimated Cost FY86-FY88	$46.5 million
Revenue at Proposed Fee Schedule	50.2 million
Variance	$ 3.7 million

PATENT APPLICATIONS FILED




TRADEMARK APPLICATIONS FILED
THOUSANDS
24
20
16
12
8
4
0
NEW FEES EFFECTIVE
P.L. 97-247
MONTHLY ACTUAL(FY 1982-1984)
THOUSANDS
200
150
100
50
0
CUMULATIVE (FY1982-1984)
ACTUAL
PLAN
10/1/81
10/1/82
10/1/83
10/1/84

Percentage Patent Applications Filed

	FY 1982	FY 1983	FY 1984
Foreign	41.3	41.8	42.3
U.S. Large Entities	37.4	35.1	33.2
U.S. Small Entities	24.0 (Est.)	23.1	24.5

Milestones - Stage I Stage II

	MILESTONE	DATE	FOR STAGE I	FOR STAGE II
	Mainframe I	2/85	X	X
	Mainframe II	4/85	X	X
	Post - 1974 Text Data Base	5/85	X	X
	Full-Text Search System	8/85	X	X
	Group 220 Image Backfile	9/85	X	X
	EPO/JPO 220 Image Backfile	9/85	X	
	220 Local Area Network	11/85	X	
	Electronic Workstations	12/85	X	
	Group 220 Image Search Software	12/85	X	
	Acquire Stage II Site	12/85		X
(1)	On-Going Data Conversion	3/86	X	X
	Initial Electronic File Wrapper Capability	6/86	X	
	Photocomposition	7/86	X	X
	Chemical Structure Search	8/86	X	X
	Patent Copy Sales	10/86	X	X
(1)	Complete Local Area Network	12/86		X
(1)	On-Going File Wrapper Capability	1/87		X
(1)	Workstation And Mainframe Expansion	3/87		X

(1) Critical Stage II Decision Points

provide wholesome yet inexpensive seafood, then other fishing boats are likely to participate in the fishery. Such development could reduce fishing pressure on traditionally harvested groundfish species, encourage development of the U.S. groundfish fishing industry, increase development of foreign markets for U.S. seafood products, and enable biological and fishing data to be obtained. Hence, the impacts of the experiment could extend beyond the individual interests of the EFP applicant.

3. *Vessel.* One domestic vessel would be involved in the experiment; this vessel is 58 feet in length and 45 net tons.

4. *Species and amount.* One thousand metric tons of shortbelly rockfish is requested. In addition, other *Sebastes* species, Pacific whiting (*Merluccius productus*), black cod (*Anoplopoma fimbria*), and squid (*Loligo opalescens*) caught incidentally during experimental fishing are requested to be retained.

5. *Time, place, and gear.* The applicant proposes to fish under the EFP in an area of the Pacific off Pigeon Point and Half Moon Bay, California, at unspecified times with conventional pelagic and roller trawl gear that has a detachable liner with a mesh size of one and one-half inches.

6. *Additional information.* The applicant has agreed to keep specific catch logs and to accommodate observers as requested.

In 1982, four EFPs were issued to U.S. fishing vessels to harvest shortbelly rockfish with pelagic trawls in the FCZ for delivery to a foreign processing vessel. Of the amount delivered, 89 percent was shortbelly rockfish, 11 percent was Pacific whiting, and less than one-half of one percent was other rockfish, sablefish, flatfish, and other fish. No salmon were taken. In 1983, one EFP was issued to a U.S. fishing vessel to harvest shortbelly rockfish for delivery to a shorebased, domestic processor. However, no fishing was done under this EFP for technical reasons.

(16 U.S.C. 1801 *et seq.*)

Dated: June 6, 1984.

Carmen J. Blondin,

Deputy Assistant Administrator for Fisheries Resource Management, National Marine Fisheries Service.

[FR Doc. 84-15899 Filed 6-13-84; 8:45 am]

BILLING CODE 3510-22-M

National Technical Information Service

Intent To Grant Exclusive Patent License

The National Technical Information Service (NTIS), U.S. Department of Commerce, intends to grant to Amfac Tropical Products, having a place of business in Kauai, Hawaii 96749, an exclusive right to practice the invention embodied in U.S. Patent 4,002,774, "Method for Removing Seeds from Papayas." The patent rights in this invention have been assigned to the United States of America, as represented by the Secretary of Commerce.

The proposed exclusive license will be royalty-bearing and will comply with the terms and conditions of 35 U.S.C. 209 and 41 CFR 101-4.1. The proposed license may be granted unless, within sixty days from the date of this published Notice, NTIS receives written evidence and argument which establishes that the grant of the proposed license would not serve the public interest.

Inquiries, comments and other materials relating to the proposed license must be submitted to the Office of Federal Patent Licensing, NTIS, Box 1423, Springfield, VA 22151.

Douglas J. Campion,

Patent Licensing, Office of Federal Patent Licensing, U.S. Department of Commerce, National Technical Information Service.

[FR Doc. 84-15899 Filed 6-13-84; 8:45 am]

BILLING CODE 3510-04-M

Patent and Trademark Office

Electronic Patent-Data Dissemination Guidelines

Introduction

The U.S. Patent and Trademark Office (PTO) has undertaken a program to fully automate its operations. As a result of the automation, new forms of patent data will be created and new techniques will become available to facilitate the end use of one of the largest technical information resources of the nation, the files of U.S. and foreign patents. To fulfill its mission to disseminate such information and to aid in the management of the electronic information resources, the PTO has formulated the following general principles and guidelines regarding electronic, digital patent data dissemination and distribution.

To the extent that formal regulations will be necessary to carry out these guidelines, separate formal rulemaking procedures will be undertaken. The purpose of this notice is to inform the public as early as possible of the PTO's present policies in automating its pater operations.

The public is urged to consider and submit comments on these guidelines. Please address comments to: J. Howard Bryant, Administrator for Automation, U.S. Patent and Trademark Office, Washington, D.C. 20231.

Background

In response to Pub. L. 96-517, the PTO prepared and submitted to Congress on December 12, 1982, its plan for the complete automation of its operations by 1990. The mandate to develop the plan stemmed from the recognition that problems of increasing magnitude threaten the effectiveness of the U.S. patent system. These problems relate to the increasing difficulty of maintaining the integrity of the all-paper hand-file and retrieval search files on which patent examination depends. Surveys indicate that at any one time, about seven percent of the search files are missing or misfiled. The process of matching the 20,000 documents of correspondence and other items that arrive in the PTO daily to the 240,000 pending patent applications is prone to a high rate of error. The already enormous data base in the patent examining search files alone—more than 250,000,000 documents—is projected to double by the end of the century. The solution to these problems is the application of computer technology to the functions of the PTO. The automation plan was developed around the concept of an essentially paperless office, using computer processable, electronic data bases to replace the existing paper files. Data will be converted to computer processable form from applications and patent search files using a variety of technical methods—optical character recognition, digital facsimile scanning, and word processing. Once the electronic data base is created, patent examiners and other PTO personnel will use it to perform searches, conduct examinations, and prepare office actions. A specially configured electronic workstation will be used to support these functions. The electronic data base also will provide the data to print the *Official Gazette* and to make copies of patents for sale to the public.

Automation is being accomplished in three stages, beginning with the installation of a proof-of-concept system to prove and refine the application of the technology to the patent process. Once proven, the test installation will expanded in the second stage to sup

all of the internal functions of the PTO. In the third stage, public access to patent information will be expanded, and electronic interconnections between cooperating foreign patent offices will be established.

Considerable progress has been made in implementing the automation plan. A $300 million contract has been awarded to the Planning Research Corporation, teamed with the Chemical Abstracts Service (a not-for-profit arm of the American Chemical Society) to provide computer software and equipment, together with supporting services, for an Automated Patent System (APS). Installation of the Automated Patent System for Stage 1 will begin late in 1984 and its evaluation will be completed in the summer of 1985. Part of the electronic data base—the text of patents from 1970 to the present—is available as a by-product of patent printing. Two pending procurement actions will provide for the conversion into computer processable form of the remainder of the backfile of U.S. patents and all future applications. Agreements have been reached with the European and Japanese Patent Offices to exchange electronic patent data bases. In brief, the most significant initial steps leading to the automation of the PTO have been carried out as planned.

As a result of the automation program, the PTO plans to create or obtain and maintain the following electronic data bases in its Automated Patent System (APS):

1. All U.S. patents, patent application files, and related patent data such as bibliographic, classification, status, and ownership information;

2. A comprehensive collection of foreign patent documents and related patent data such as bibliographic and classification information, captured by the PTO or obtained through exchanges with other patent offices, intergovernmental organizations, or other entities;

3. A collection of selected non-patent technical literature.

These data bases will be accessed using electronic workstations with dual, high-resolution displays, and software that provides the capability to use index and full text search techniques. These search techniques includes the ability to search according to the current U.S. Patent Classification System, and an international patent classification system. The patent examiners will also be provided with access to selected commercial search data bases using their electronic workstations.

The PTO considered several approaches to the dissemination of patent data, and adopted the following general principles and guidelines.

I. Dissemination Goals and Objectives

It is the goal of the PTO to achieve effective, widespread dissemination of patent information to all segments of the U.S. public.

A. This will be accomplished directly by providing electronic data base search and retrieval services in public search facilities located in the PTO and other locations which may be established by the Government. To the extent technically feasible and economically viable, services also will be provided in cooperation with Patent Depository Libraries (PDLs), under provision of 35 U.S.C. 13. PDLs are Federal, state and local government or non-commercial university libraries designated by the PTO to offer public, non-profit access to patent collections.

B. The PTO will pursue its dissemination goal indirectly by encouraging the private sector to offer commercial patent search and retrieval services outside the public search facilities and PDLs. The PTO will seek to avoid competition with private sector firms in providing such services to the public.

II. Direct Dissemination to the Public

A. The PTO will seek to provide the following in the public search facilities:

1. Electronic access to all the capabilities of the Automated Patent System (APS) that will be available to patent examiners, excluding pending and abandoned applications not accessible under 35 U.S.C. 122, at user fee rates based on the marginal cost of providing the access; and

2. Access at commercial rates, to commercial data bases that are available to the patent examiners.

B. To the extent that it is technically feasible and economically viable, the PTO will seek to provide in the PDLs access to the capabilities of the Automated Patent System, excluding pending and abandoned applications not accessible under 35 U.S.C. 122, at user fee rates based on the marginal cost of providing those services.

III. Distribution to Commercial Data Base Vendors

The PTO will pursue its dissemination goals indirectly by making its electronic patent data available to commercial data base vendors that provide commercial search and retrieval services to the public. The PTO will provide its data to such commercial data base vendors under the following conditions:

A. All U.S. patent data created by the PTO will be made available in bulk form, that is on magnetic tape or another suitable medium.

B. In general, the PTO will not distribute the data received from another patent office but will seek to have contractual arrangements established directly between the other patent office and the commercial data base vendor. The PTO will not act as a service agent or representative of another office unless there is a special need that cannot be met otherwise.

C. Fees charged to commercial data base vendors for bulk U.S. patent data will be based on the marginal cost of providing such distribution services plus a fair market value charge for the data, as set by the PTO.

D. Normally, arrangements with commercial data base vendors will be non-exclusive. Bulk resale of PTO data by commercial data base vendors will be prohibited by the terms of the bulk sale agreement.

IV. Exchange of International Data

International electronic patent data exchanges between the PTO and other patent offices will be made when deemed to be advantageous. Dissemination of data obtained through data exchanges will be based on the following guideline: All data obtained by exchanges from other patent offices will be obtained under agreements that will permit the data to be incorporated into the Automated Patent System (APS). If the data cannot be incorporated into the Automated Patent System (APS), it will be governed by these guidelines as they apply to commercial data bases.

Dated: June 8, 1984.

Gerald J. Mossinghoff,

Commissioner of Patents and Trademarks.

[FR Doc. 84-15855 Filed 6-13-84; 8:45 am]

BILLING CODE 3510-16-M

DEPARTMENT OF DEFENSE

Department of the Air Force

USAF Scientific Advisory Board; Science Panel Meeting

June 4, 1984

The USAF Scientific Advisory Board Air Force Office of Scientific Research (AFOSR) Review Committee will meet July 30-31 from 8:00 a.m. to 5:00 p.m. and August 1 from 8:00 a.m. to 12:00 p.m. in Room 5D1014, at the Pentagon, Washington DC.

The meeting will be closed to the public.

PATENT, TRADEMARK AND COPYRIGHT LAW SECTION
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OF THE DISTRICT OF COLUMBIA
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WASHINGTON, D.C. 20006
(202) 223-1480
TO DEPUTY OFFICE

March 27, 1985

1984-1985
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Section Delegate to National Council of Patent Law Associations
WILLIAM T. BULLINGER
(202) 861-3000

Honorable Donald J. Quigg
Acting Commissioner of Patents & Trademarks
Washington, D.C. 20351

Re: Survey With Respect to Automation

Dear Don:

Recently, the Patent, Trademark and Copyright Law Section of the Bar Association of the District of Columbia sent out a questionnaire to its approximately 250 members requesting their views and comments with regard to the plans of the PTO to go forward with its patent automation program. A total of 43 responses were obtained.

Set forth below is a summary of the results that were obtained.

(1) The PTO should orient its guidelines and adopt policies which aggressively seek to acquire foreign patent date and to actively promote its availability to U.S. public.
Agree: 39 Disagree: 3

(2) With respect to the public searching costs at the PTO search room, the PTO should not depart from its historical policy sanctioned by Congress of using public funds rather than user fees to make its patent data available to the public in the search room at essentially no cost. Agree: 37 Disagree: 4

(3) The statements in the guidelines to the effect that the PTO will provide public access to all capabilities of the Automated Patent System (APS) that will be available to the Patent Examiners does not go far enough. A broader principle of accessibility should be stated to the effect that the PTO

will provide public access to all unrestricted patent data that will be available to the Examiners, whether or not incorporated in the APS.
Agree: 39 Disagree: 2

(4) With respect to the acquisition and dissemination of foreign patent data, the PTO should not limit itself to the basic patent data which it can obtain at no cost through an exchange program, but should make an effort to obtain and disseminate the special "enhancements" such as English translations of Japanese abstracts of such basic data which may not be available on a no cost exchange basis. The PTO should undertake to directly purchase or license "enhancements" from a foreign patent office or agency for dissemination to the public at the PTO search room. With regard to the costs of acquiring and disseminating such special "enhancements", please indicate your view as to whether the PTO (should/should not) resort to user fees.

(5) Are you as a user willing to pay fees for special enhancements of the data base obtained from foreign patent offices which the PTO is not able otherwise to obtain on a free dissemination exchange basis?
Yes: 36 No: 6

(6) Should future online access to the PTO's APS from locations outside the PTO be via the PTO or should it be via commercial data bases?
PTO: 21 No: 18

(7) If via the PTO, should the PTO charge user fees in order to defray the extra costs involved?
Yes: 28 No: 9

With regard to question (4), many people did not respond specifically to that question and of those that did, there was an even split of 12 in favor of user fees and 12 against user fees. This may be because the respondees felt that the answer was given in respect of question (2).

In general, the members favored the acquisition of enhancements even if it is necessary to pay a user fee for those enhancements, thereby recognizing that they will obtain a better search and that the Examiner would be able to do a better search. As to access outside the PTO, a majority of persons would go along with the user fee if no other way is feasible. However, as may be

seen from the responses to question (6), there was some concern expressed by the members in their comments that the PTO should not be in competition with commercial data bases with regard to providing access form locations outside the PTO.

We are presenting you with this data in the interest of assisting the PTO in its study and evaluation of patent automation.

Sincerely,

Robert G. Weilacher
Chairman-Elect

RGW/hbw

cc: Mr. Blommer - AIPLA

Mr. W. Weigl
The National Council of Patent Law Associations

Mr. M. Kalikow
Automation Advisory Committee

SIGNIFICANT ISSUES

- FEE INCREASES EFFECTIVE OCTOBER 1, 1985
- EMPHASIS ON QUALITY
- IMPROVED DELIVERY OF SERVICES/PRODUCTS
- PLANNING ASSUMPTIONS
- REAUTHORIZATION OF P.L. 97-247
- 85 PAY RAISE ABSORPTION
- PTO BUDGET REVIEW
- PROPOSED PROGRAM REDIRECTONS

PATENT AND TRADEMARK OFFICE

1985 ABSORPTIONS/SHORTFALLS

SUMMARY

• Absorb 1/1/85 Pay Raise:	$3,030.0
• Mid-Year Program Adjustments:	
- Patent Production and Support	947.0
- Public Products and Services	1,097.0
- Automation	612.2
TOTAL	$5,686.2

PATENT AND TRADEMARK OFFICE

1985 ABSORPTIONS/SHORTFALLS
ACTION PLAN
(DOLLARS IN THOUSANDS)

ACTION	AMOUNT
GENERAL	
- ABSORB PAY RAISE WITHIN ALLOWANCE:	$ 296.0
- APPLY '83/'84 SURPLUS TM FEES FOR PAY RAISE:	266.0
- EXTEND VACANCIES, REDUCE TRAINING, POSTPONE PROCUREMENTS, REDUCE VEHICLE SERVICES	1,439.0
- ELIMINATE RESERVE FOR VARIANCES TO EXAMINER ATTRITION, PROMOTION, WITHIN GRADE PLAN	200.0
PROGRAM REDIRECTIONS	
- SCALE DOWN SPO ON STRENGTHENING INTELLECTUAL PROPERTY PROTECTION ABROAD	70.0
- REDUCE PATENT RECLASSIFICATION/FILE INTEGRITY	226.0
* TERMINATE EXAMINER USE OF COMMERCIAL DATA BASE FOR REST OF '85	600.0
- REVISED BACKFILE CAPTURE CONTRACT ESTIMATE	400.0
- PATENT PRINTING COST AVOIDANCE	1,014.0
PROGRAM TERMINATIONS	
- ELIMINATE MAJORITY OF FUNCTIONS OF OFFICE OF TECHNOLOGY, ASSESSMENT & FORECAST. MAINTAIN SPECIALIZED DATA BASE ONLY	390.2
- ELIMINATE MAJORITY OF FUNCTION OF OFFICE OF MANAGEMENT & ORGANIZATION. MAINTAIN ORGANIZATION MANAGEMENT FUNCTIONS FOR DOC ONLY	139.0
- DISCONTINUE MICROFILMING OF PATENT FILE WRAPPERS (PTO doesn't keep copies)	546.0
- TERMINATE SUMMER EMPLOYMENT PROGRAM FOR STUDENTS	100.0
TOTAL	$5,626.2

FY 1985 PROGRAM GOALS

PLAN 18/87

PRODUCTION UNITS:	122,000
PENDENCY:	23.2 MONTHS
FILINGS:	107,000

PLAN 3/13

OFFICE DISPOSALS:	92,407
PENDENCY:	
- TO FIRST ACTION:	3.0 MONTHS
- TO REGISTRATION:	13.0 MONTHS
FILINGS:	62,500

AUTOMATION

TRADEMARK AUTOMATION:
- T-SEARCH OPERATIONAL
- DATA BASE PRINT CAPABILITY OPERATIONAL
- COMPLETED AHEAD OF SCHEDULE

PATENT AUTOMATION:
- MAINFRAMES DELIVERED (STAGE 1/2)
- SECURE POST-1974 TEXT DATA BASE (STAGE 1/2)
- AWARD HARDWARE SUBCONTRACTS (STAGE 1)
- FULL TEXT SEARCH SYSTEM TO ALL GROUPS (STAGE 1/2)
- US/EPO/JPO IMAGE BACKFILE FOR GROUP 220 (STAGE 1)

PROPOSALS

- EMPHASIZE QUALITY
- DELIVER NEEDED PRODUCTS & SERVICES
- ACHIEVE MODIFIED STAGE 1/2 AUTOMATION GOALS
- MAINTAIN COMMITMENT TO 18/87 & 3/13 PROVIDED ORIGINAL FILING ASSUMPTIONS HOLD
- PURSUE GOAL OF 18 MONTHS PENDENCY BY 1988 IF CURRENT FILING ASSUMPTIONS PROVE CORRECT

Patent and Trademark Office
1986 - 1988 Fee Cycle
Tentative Fees

I. Statutory Fees - Established by 35 USC 41(a) and 41(b) and subject to adjustment by Consumer Price Index

Fee Code	Description	Present Fee	CPI @ 10.7%	Revised Fee*
Large Entity				
101	Basic filing fee	300	332.10	340
102	Independent claims	30	33.21	34
103	Claims in excess of 20	10	11.07	12
104	Multiple dependent claims	100	110.70	120
106	Design filing fee	125	138.38	140
107	Plant filing fee	200	221.40	230
108	Reissue filing fee	300	332.10	340
109	Reissue independent claims	30	33.21	34
110	Reissue claims in excess of 20	10	11.07	12
115	Extension - first month	50	55.35	56
116	Extension - second month	150	166.05	170
117	Extension - third month	350	387.45	390
118	Extension - fourth month	550	608.85	610
119	Notice of appeal	115	127.31	130
120	Filing a brief	115	127.31	130

* Under $100 - rounded to next even number. $100 and over - rounded to next 10

Fee Code	Description	Present Fee	CPI @ 10.7%	Revised Fee*
Large Entity				
121	Request for oral hearing	100	110.70	120
140	Petition - revive abandoned application	50	55.35	56
141	Petition - revive unintentional abandonment	500	553.50	560
142	Issue fee	500	553.50	560
143	Design issue fee	175	193.73	200
144	Plant issue fee	250	276.75	280
148	Statutory disclaimer	50	55.35	56
173	Maintenance fee - 3½ - 97-247	400	442.80	450
174	Maintenance fee 7½ - 97-247	800	885.60	890
175	Maintenance fee 11½ - 97-247	1200	1328.40	1330
Small Entity				
201	Basic filing fee	150	166.05	170
202	Independent claims	15	16.61	17
203	Claims in excess of 20	5	5.54	6
204	Multiple dependent claims	50	55.35	60
206	Design filing fee	62.5	69.19	70
207	Plant filing fee	100	110.70	115
208	Reissue filing fee	150	166.05	170
209	Reissue independent claims	15	16.61	17
210	Reissue claims in excess of 20	5	5.54	6

Fee Code	Description	Present Fee	CPI @ 10.7%	Revised Fee*
Small Entity				
215	Extension - first month	25	27.68	28
216	Extension - second month	75	83.03	85
217	Extension - third month	175	193.73	195
218	Extension - fourth month	275	304.43	305
219	Notice of appeal	57.5	63.65	65
220	Filing a brief	57.5	63.65	65
221	Request for oral hearing	50	55.35	60
240	Petition - revive abandoned application	25	27.68	28
241	Petition - revive unintentional abandonment	250	276.75	280
242	Issue fee	250	276.75	280
243	Design issue fee	87.5	96.86	100
244	Plant issue fee	125	138.38	140
248	Statutory disclaimer	25	27.68	28
273	Maintenance fee - 3½ - 97-247	200	221.40	225
274	Maintenance fee 7½ - 97-247	400	442.80	445
275	Maintenance fee 11½ - 97-247	600	664.20	665

II. Non-Statutory Patent Fees

Fee Code	Description	Present Fee	1985 Cost	Revised Fee
105	Surcharge - late filing fee	100	Penalty	200
111	Extension of term of patent	750	Not set by regulation	750
112	SIR - prior to examiner's action	400	387.71	400
113	SIR - after examiner's action	800	804.88	800
122	Petition - correction of inventorship	120	136.72	150
123	Petition - not all inventors	120	136.72	150
124	Petition - decision on questions	120	136.72	150
125	Petition - suspend rules	120	136.72	150
127	Petition - for assignment record	60	71.29	80
128	Petition - for application	60	71.29	80
129	Petition - late priority papers	60	71.29	80
130	Petition - special	60	71.29	80
131	Petition - suspend action	60	71.29	80
132	Petition - divisional reissues	60	71.29	80
133	Petition - for interference agreement	60	71.29	80
134	Petition - amendment after issue	60	71.29	80
135	Petition - withdrawal from issue	60	71.29	80
136	Petition - defer issue	60	71.29	80
137	Petition - issue to assignee	60	71.29	80
138	Petition - public use proceeding	750	855.03	950
139	Non-English specifications	20	51.65	100

Fee Code	Description	Present Fee	1985 Cost	Revised Fee
145	Certificate of correction	40	27.13	40
146	Petition - correction of inventorship	120	136.72	150
147	Reexamination	1500	1700.66	1800
160	Petition - expedited license	120	136.72	150
161	Petition - scope of license	120	136.72	150
162	Petition - retroactive license	120	136.72	150
163	Petition - refusing maint. fee	120	136.72	150
164	Petition - refusing maint. fee - expired patent	120	136.72	150
165	Petition - interference	120	136.72	150
166	Petition - reconsider interference	120	136.72	150
167	Petition - late filing fee	120	136.72	150
168	Petition - refusal to publish SIR	120	136.72	150
170	Maintenance fee - 3½ - 96-517	200	13.23	225
171	Maintenance fee - 7½ - 96-517	400	13.23	445
172	Maintenance fee - 11½ - 96-517	600	13.23	665
176	Surcharge - 6 months - 96-517	100	Penalty	200
177	Surcharge - 6 months - 97-247	100	Penalty	200
178	Surcharge after expiration	500	Penalty	500
181	Unidentifiable maintenance fee	---	---	
205	Surcharge - late filing fee	50	Penalty	100
277	Surcharge - late maintenance fee - 97-247	50	Penalty	100

JJJ. Trademark Fees

Fee Code	Description	Present Fee	1985 Cost	Est. 1986 Cost	Revised Fee
301	Application fee	175	249.93	210.28	200
302	Renewal	300	68.60	58.20	300
303	Surcharge - late renewal	100	Penalty	Penalty	100
304	Section 12(c)	100	15.00	10.00	100
305	Certificate of registration	100	23.33	20.66	100
306	Certification of correction	100	23.33	20.66	100
307	Disclaimer	100	10.00	10.00	100
308	Amendment	100	22.44	21.41	100
309	Section 8	100	27.29	21.84	100
310	Section 15	100	21.33	19.00	100
311	Section 8 and Section 15	200	56.55	40.71	150
312	Petitions	100	117.86	118.83	100
313	Petition to cancel	200	436.20	368.20	200
314	Notice of opposition	200	393.34	642.15	200
315	Appeal to TTAB	100	513.89	567.39	100
New	Extension of Time	-	22.46	23.58	50

IV. Service Fees

Fee Code	Description	Present Fee	1985 Cost	Revised Fee
Trademark				
401	Copy of mark	1	$ 1.14	1
402	Coupons	1	---	1
403	Certifying records	3.50	2.82	**
404	Photocopies	.30	.54	**
405	Recording assignments	100	18.63	100
406	Each additional mark	20	2.08	20
407	Abstracts of title	12	14.57	16
408	Copy of mark	6.50	5.45	**
409	Unspecified, at cost		---	
Patent				
501	Copy of patent	1	1.14	1.50
502	Coupons	1	---	1.50
503	Copy of plant patent	8	5.30	8
504	Application as filed	18	8.32	30
505	File wrapper	30	81.00	100
506	Office records	.30	.65	1
507	Microfiche copy	2	.50	2

** To be determined

Fee Code	Description	Present Fee	1985 Cost	Revised Fee
508	Certifying office records	3.50	2.54	-
509	Search of records	12	11.52	15
510	Comparing records	.10	.14	15
511	Annual subscription	4	6.62	8
512	Each additional subclass	.40	.65	.70
513	Library subscription	50	STATUTORY	50
514	List of patents	2	1.25	2
515	List of patents - limited	2	1.25	2
516	Disclosure	10	5.97	10
517	Searching - ½ hour	10	13.50	15
518	Recording assignments	20	6.40	20
519	Additional patents	5	1.55	5
520	Publication in OG	6	6.54	8
521	User pass	5	---	5
522	Box rental	24	40.00	60
523	Locker rentals	.25	.14	.25
524	Cost per page	.20	.14	.20
525	Unspecified, at cost	---	---	-
527	Microfiche copy - file record	10	6.08	10
528	Uncertified statement - maintenance fee	3	2.97	3
529	Retaining abandoned application - 1.53	100	12.00	100
530	Handling fee - 1.53	50	14.34	50

Fee Code	Description	Present Fee		Revised Fee
Miscellaneous				
604	Credit memo	---	---	-
605	Clearing accounts	---	---	-
606	Unidentified fees	---	---	-
607	Establish deposit account	10	7.66	10
608	Service charge	2	---	20
609	Admission to exam	75	233.79	250
610	Registration to practice	50	76.00	100
611	Reinstatement to practice	25	8.46	25
612	Certificate of good standing, suitable for framing	10	82.50	100
613	Computer records, at cost	---	---	
614	Air mail service, at cost	---	---	
615	Review of decision of OED	60	86.67	100
616	Regrading of examination	60	86.67	100
Finance				
701	Deposit to account	---	---	
702	Refund	---	---	
703	Adjustment (dr)	---	---	
705	Adjustment (cr)	---	---	

V. PCT

Fee Code	Description	Present Fee	1985 Cost	Revised Fee
150	Transmittal	125	163.10	180
151	International search	500	393.55	550
152	Supplemental search	125	131.15	150
153	International search - prior U.S.	250	417.33	170
154	Surcharge	100	Penalty	200
155	International type search	25	27.87	35
156	English translation - after 20 months	20	7.70	20
159	Overpayments	---		
800	Basic international application	---		
801	Basic supplemental	---		
802	International search - EPO	---		

VI. Refunds

Fee Code	Description	Present Fee	Revised Refund
	Declined reexamination request	$1200	$1300
	PCT refund		**

** To be determined

VII. Proposed New Fees

Fee Code	Description	1985 Cost	Revised Fee
	Request for duplicate filing receipt	$13.73	20
	Request for corrected filing receipt	13.00	20
	Furnishing copies of class definitions	.50	1
	Furnishing copies of classification orders	.50	1
	Processing returned checks	12.00	20
	Copy of non-U.S patent documentation		10
	Trademark - Extension of Time	23.58	50
	File wrapper - over 500 pages		500
	Certificate of good standing		25
	Computer readable data files, at cost		-
	Patent Assignment		8

APPENDIX III

MATERIAL RELATING TO GAO REVIEW OF OPERATIONS OF PATENT AND TRADEMARK OFFICE

MAJORITY MEMBERS
JACK BROOKS, TEXAS, CHAIRMAN
DON FUQUA, FLORIDA
JOHN CONYERS, JR., MICHIGAN
CARDISS COLLINS, ILLINOIS
GLENN ENGLISH, OKLAHOMA
HENRY A. WAXMAN, CALIFORNIA
TED WEISS, NEW YORK
MIKE SYNAR, OKLAHOMA
STEPHEN L. NEAL, NORTH CAROLINA
DOUG BARNARD, JR., GEORGIA
BARNEY FRANK, MASSACHUSETTS
TOM LANTOS, CALIFORNIA
ROBERT E. WISE JR., WEST VIRGINIA
BARBARA BOXER, CALIFORNIA
SANDER M. LEVIN, MICHIGAN
MAJOR R. OWENS, NEW YORK
EDOLPHUS TOWNS, NEW YORK
JOHN M. SPRATT, JR., SOUTH CAROLINA
JOE KOLTER, PENNSYLVANIA
BEN ERDREICH, ALABAMA
GERALD D. KLECZKA, WISCONSIN
ALBERT G. BUSTAMANTE, TEXAS
MATTHEW G. MARTINEZ, CALIFORNIA

NINETY-NINTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON GOVERNMENT OPERATIONS
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

April 25, 1985

MINORITY MEMBERS
FRANK HORTON, NEW YORK
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WILLIAM F. CLINGER, JR., PENNSYLVANIA
ALFRED A. (AL) MCCANDLESS, CALIFORNIA
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HOWARD C. NIELSON, UTAH
JIM SAXTON, NEW JERSEY
PATRICK L. SWINDALL, GEORGIA
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DAVID S. MONSON, UTAH
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JOHN G. ROWLAND, CONNECTICUT
RICHARD K. ARMEY, TEXAS
JIM LIGHTFOOT, IOWA
JOHN R. MILLER, WASHINGTON

MAJORITY—225-5051
MINORITY—225-5074

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

Dear Mr. Chairman:

For your information, I am enclosing a copy of a General Accounting Office report on the Patent and Trademark Office (PTO) regarding its efforts to automate its trademark operations. As you know, I requested this investigation because of concern that this important computer project was being mismanaged by PTO officials. Unfortunately, my concerns were well founded.

After a thorough and comprehensive investigation, the GAO found that PTO had (1) failed to identify the basic needs of the users of the system; (2) accepted terminal equipment that did not meet their requirements and, incredibly, replaced that equipment with other deficient equipment; (3) improperly used exchange agreements to circumvent Federal procurement regulations; (4) negotiated terms to the exchange agreements that restricted PTO's control over its own resources, restricted public access to trademark information, and resulted in high fees being charged to the public; and (5) accepted an automated search system without fully testing it resulting in a system that was no better than the manual system it replaced.

Clearly, the actions taken by PTO have jeopardized the entire automation project. In this regard, I believe that it is essential for your Subcommittee to consider GAO's report, supplemented by testimony from GAO representatives, prior to or during the markup of the upcoming authorization bill.

Sincerely,

JACK BROOKS
Chairman

Enclosure

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

REPORT TO THE CHAIRMAN,
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

PATENT AND TRADEMARK OFFICE NEEDS TO BETTER MANAGE AUTOMATION OF ITS TRADEMARK OPERATIONS

At the request of the Committee Chairman, GAO reviewed automation efforts at the Department of Commerce's Patent and Trademark Office (PTO). GAO found that, in attempting to automate its trademark operations, PTO did not (1) thoroughly analyze user needs (2) adequately assess the cost-effectiveness of its systems, (3) properly manage three exchange agreement contracts, and (4) fully test one of its systems before accepting it from the contractor.

PTO has addressed several of these problems, but it needs to do more. GAO makes recommendations to the Congress and to the Secretary of Commerce to assist PTO in correcting problems noted in this report.

GAO/IMTEC-85-8

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

April 19, 1985

B-217448

The Honorable Jack Brooks
Chairman, Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This letter responds to your July 11, 1984, request that we conduct a review of the automation of the trademark operations at the Department of Commerce's Patent and Trademark Office (PTO). In 1980, the Congress required PTO to prepare a plan to identify its automation needs and, if necessary, develop an office-wide automation system. In 1981, in response to this mandate, PTO began planning automation of its trademark operations. Since then, it has spent over $9 million to develop and operate three automated systems. In February 1985, PTO estimated the trademark automation effort would cost $22.4 million in developmental and operational costs through 1988.[1]

On the basis of your request and later discussions with your office, we examined management issues relating to automation of PTO's trademark operations. Specifically, we focused on PTO's (1) analyses of system user requirements, (2) a 1982 trademark automation cost/benefit analysis, and (3) contracting practices and procedures for acquiring the automated trademark systems. We contacted PTO and industry officials, reviewed their files, and obtained affidavits from certain individuals about matters on which we had received conflicting information. This letter summarizes our findings and presents our conclusions and recommendations. Appendix I provides specific details on our review.

In its 1982 Automation Master Plan, PTO established three major goals for its trademark automation effort--improved registration quality, cost-effectiveness, and reduced application processing time.

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[1]Trademark automation costs are a part of PTO's office-wide automation program that PTO estimated in 1982 to cost at least $719.9 million through 2002. PTO's estimate did not separate trademark and patent automation costs. Also, PTO omitted significant trademark automation costs in its 1982 cost/benefit analysis. However, it did include estimated cost reductions that would result from the automation effort.

To accomplish this, PTO has acquired automatic data processing (ADP) services and equipment through monetary procurements; it is acquiring the associated data bases through non-monetary arrangements, known as exchange agreements, with firms that provide trademark related services. Under the exchange agreements, PTO agreed to provide the firms with trademark data for the firms' own use and accepted restrictions on public access to certain automated trademark information. In return, the firms agreed to produce and provide copies of PTO's trademark data bases in machine-readable form. PTO is moving forward with its automation effort. However, we found that, because of the manner in which this effort has been managed to date, PTO has little assurance of meeting its goals.

PTO has encountered four distinct types of management problems in its trademark automation activities. PTO did not (1) thoroughly analyze or develop the functional requirements for its or the public's use of its three automated systems; (2) adequately assess the costs and benefits of its automation systems; (3) properly manage its three exchange agreements; and (4) fully test its trademark search system before accepting it from the contractor.

PTO has addressed or is addressing several of the problems we noted. However, we believe its efforts to date are not enough to overcome all the problems.

AUTOMATING TRADEMARK OPERATIONS

Trademarks are words or symbols that identify and distinguish products and are used to indicate the origin of goods and services. Trademarks are registered with PTO primarily to help protect the owner's rights to the trademark.

PTO's Administrator for Automation and his staff (hereafter the Automation Office) manage the office-wide automation program and were responsible for developing the automation plan, including identifying requirements and developing PTO's cost/benefit analysis. PTO's primary users of the automated trademark systems are under the Office of the Assistant Commissioner for Trademarks (hereafter the Trademark Office). The public currently uses PTO's manual search files and those elements of the automated system that are fully operational. The public will have access to additional elements of the automated system as they become operational.

As part of its automation effort, PTO has automated three trademark operations involving information searching, monitoring, and retrieving. The search system is being developed by the System Development Corporation; PTO developed the other two systems. In general, these systems were intended to improve PTO's ability to (1) search existing trademarks to ensure that confusingly similar trademarks are not registered, (2) monitor the status of trademark applications, and (3) microfilm, retrieve and print copies of PTO's

original trademark documents. PTO's automated monitoring and retrieval systems became operational in 1983 and early 1984, respectively.

PTO has experienced difficulty in using its search system. PTO accepted the search system from the contractor in June 1984 when it was not in a position to test all of the system's features. Furthermore, it has had to supplement the automated search system with manual searching because, according to the Assistant Commissioner for Trademarks, the data base contains too many errors for use without manual verification. As of April 1985, the system was not fully operational.

PTO has announced that it plans to eliminate its manual search facility after the automatic search system becomes fully operational and reliable. As of April 1985, PTO had not specified when this would occur.

In 1983, PTO entered exchange agreements with three companies to obtain computer tapes of trademark information (machine-readable data bases) to be used on its automated monitoring and search systems. In general, the companies agreed to type (key enter) data from PTO's trademark records onto computer tapes and provide these tapes to PTO for use in its automated trademark systems. In return, PTO agreed to (1) provide copies of trademark data tapes and related documents for the companies' own use and (2) place certain restrictions on public access to the trademark data base. Under the existing manual searching process, no restrictions exist.

With respect to the initial exchange agreement restrictions, the public would not be allowed to use the more advanced capabilities of PTO's planned automated search system to access the trademark data. For example, the public would not be able to search phonetically for trademarks that sound alike. The companies wanted restrictions on the automated system to ensure that PTO's search system did not compete with their trademark search business, according to PTO and company officials. Thus, at the time the agreements were entered, if PTO had terminated manual searching according to its announced intentions, the effect of the public access restriction might have been to force the public to do business with one of the exchange companies or forego the more effective trademark search techniques.

CERTAIN USER REQUIREMENTS WERE NOT IDENTIFIED

Federal ADP management regulations required that agencies prepare a comprehensive requirements analysis before they acquire ADP systems. At a minimum, the analysis must include critical factors, such as a study of data entry, handling, and output needs, and "the ADP functions that must be performed to meet the mission need."

While PTO performed analyses of user needs, we believe these analyses were inadequate because they did not specify all basic requirements for PTO's trademark systems. Such weaknesses often

result, as they did in PTO, in agencies' acquiring systems that do not fully and effectively meet user needs.

In developing its trademark application monitoring system, for example, PTO did not identify all essential features needed for its computer terminals used for data editing. As a result, PTO purchased terminals without the necessary editing features. These terminals were replaced by other terminals available to PTO. The replacement terminals were also deficient. According to Trademark Office officials, the limitations of the terminals have contributed to an unacceptably high data-entry error rate that necessitated a $327,214 proofreading contract to correct the errors. PTO also spent $137,000 for its computer-assisted retrieval system before learning that it could not provide the printout quality required by public users of the system. In addition, in planning its trademark search system, PTO omitted a basic search routine that industry and Trademark Office officials characterized as fundamental to trademark searching. Subsequently, PTO identified and corrected this problem through a contract modification costing about $70,000.

We also found indications that PTO recognized the incompleteness of its requirements analysis. PTO's Administrator for Automation, in a March 1984, internal memorandum, stated:

> "The lack of a consolidated, coherent functional requirement document...is a continuing handicap in Trademarks.... From a systems point of view, it would have been more efficient, over the long haul, to nave deferred the development of the ATS [Automated Trademark System] system, including especially TRAM, [the monitoring system] until the long-range concepts was [sic] solidified. Of course, that would have delayed all aspects of Trademark automation and the consequent benefits from it. This was a major consideration in following the current course."

AUTOMATION COSTS AND BENEFITS NOT ADEQUATELY ASSESSED

Federal ADP management regulations also required that agencies justify automation activities with a comprehensive requirements analysis, including consideration of "the cost/benefits that will accrue...." PTO's 1982 cost/benefit analysis indicated that automating the trademark operations would reduce its operating costs by about $77 million over a 20-year period. However, PTO omitted significant cost estimates of acquiring and operating its automated trademark system in computing the $77 million cost reduction estimate. Also, according to the Administrator for Automation, PTO's analysis did not separate trademark and patent automation costs because the cost portion of the study was done on a PTO-wide basis. We also found that PTO's analysis was inadequate because it was based on assumptions that lacked analytical support and because

PTO did not discount[2] the expected cost savings. Because of these insufficiencies, we believe the savings estimates are not reliable.

The current Trademark Office officials question the accuracy of the 1982 cost reduction estimates which, among other things, assume that automation will decrease Trademark Office annual operating costs by about one-third. Although the Administrator for Automation considers these estimated operating cost reductions achievable, the Assistant Commissioner for Trademarks and the Trademark Office staff stated that the one-third assumption is too high, leading to an exaggerated cost reduction estimate. The estimate's margin of error could be significant. If the 1982 analysis is recomputed using current cost data, an estimating methodology that properly incorporates discounting, and a more conservative estimate that there will be a 10 percent reduction in Trademark Office operating costs (according to Trademark Office officals, the highest achievable percentage)--the original estimated cost reduction becomes a cost increase. We could not determine the reasonableness of the assumptions of either group of officials because there was insufficient evidence offered to thoroughly support either set of assumptions.

PTO's Administrator for Automation said that he did not develop a more refined cost/benefit analysis because PTO's primary goal for trademark automation was to improve registration quality by using more comprehensive trademark searches on a more complete trademark file. He added that cost-effectiveness was not the primary automation goal. PTO's 1982 cost/benefit analysis, however, did not document support for the expectation of improved registration quality.

PROBLEMS EXPERIENCED WITH EXCHANGE AGREEMENTS

PTO's use of exchange agreements was specifically authorized by the Congress in Public Law 97-247 (approved on August 27, 1982). This authority allows PTO to use items or services of value rather than money to obtain needed goods or services. To date, PTO has not developed specific criteria for deciding when exchanges rather than monetary contracts should be used.

In 1983, PTO signed three exchange agreements with three different companies to acquire a data base of trademark information. PTO officials told us that the agreements were properly entered under PTO's exchange agreement authority, developed using appropriate procedures, and economical. We found, however, that

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[2]Discounting is a standard practice by which expected future cash flows are estimated and reduced to reflect the time value of money. The Administrator for Automation said that PTO did not discount the expected trademark cost savings it presented in the cost/benefit analysis section of its 1982 Automation Master Plan.

while PTO received benefits from the exchanges, (1) the benefits PTO received were less than those provided to the companies, (2) the approach PTO used to develop the exchange agreements was inappropriate, and (3) maximum practical competition on two agreements was not obtained. Lastly, PTO did not adequately consider all future impacts of the exchanges on itself or the public.

In negotiating the terms of the exchange agreement, PTO and the companies initially placed no value on a provision that PTO would limit public access to its data base. As a result, the companies received greater value than did PTO. Subsequently, PTO and the companies assigned an estimated present value of $3.18 million to this contract provision. This value was based on PTO's estimate of the costs of creating the data base primarily by means of a monetary key-entry procurement.

On March 13, 1985, we issued a legal opinion on PTO's exchanges. We concluded that the exchanges were procurements of commercial ADP support services subject to the requirements of the Brooks Act and the Federal Procurement Regulation. The General Services Administration, which has authority over such ADP procurement matters, has agreed with our position. PTO's official position, as stated in an April 10, 1985, letter to us is that PTO does not believe that exchanges are procurements under the Brooks Act. Consequently, none of the exchange agreements were developed with the procurement regulations in mind. Furthermore, in reviewing PTO's actions, we concluded that PTO did not obtain maximum practical competition as required by the Federal Procurement Regulation on two of the three procurements.

PTO also agreed to terms that restricted its control over its resources, adversely affected public access to data, and were uneconomical. For the last few years, PTO made certain data tapes available for sale to the public. PTO accepted a provision that required it to fix higher prices for future sales to the public of these data tapes. Also, because of the provision restricting public access, PTO had to ask the private companies for permission to provide the public access to the full range of capabilities of its $10 million search system. The companies assented only after PTO agreed to a charge to the public. The charge included royalty payments to the companies with an estimated present value of $3.18 million. There are other restrictions limiting PTO's ability to distribute data tapes.

PTO recently announced that it intended to negotiate the purchase of additional rights to the trademark data from the companies, thereby lifting some or all of the existing restrictions. Whether this negotiation will be successful had not been determined as of April 12, 1985.

SEARCH SYSTEM ACCEPTED WITHOUT BEING FULLY TESTED

PTO's search system contract with the System Development Corporation stipulates that government acceptance of the system is "contingent upon the system passing all tests associated with the acceptance program." The image retrieval subsystem was an integral part of the search system.

We found that PTO excluded from the acceptance program any tests of the image retrieval subsystem because it knew that the necessary data base would not be available in time for the scheduled delivery of the subsystem. PTO made an agreement with the contractor to test the image retrieval subsystem at a later date. Nevertheless, PTO chose to officially accept the entire search system based on a partial test. Furthermore, PTO stated in a June 21, 1984, letter to the contractor that "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System."

In a test in November 1984 to determine image retrieval capabilities, the system performed searches over 20 minutes, not 16 minutes as the contract required. Since the average search time specified in the contract, 16 minutes, was equal to the average manual search time, this test demonstrated that the system was slower than the old manual approach. In an April 1985 retest, the system achieved the 16-minute requirement. A PTO Trademark Office official told us that, during this third test, the system could not accommodate 10 simultaneous image searches; a PTO contracting official confirmed that the contract requires the system to accommodate at least 24 simultaneous design searches. Trademark Office officials corroborate the current inadequate search capability.

A PTO automation official acknowledged that the search system was accepted before all testing requirements were met. He characterized the problems as minor and ultimately correctable by the contractor. PTO's Assistant Commissioner for Finance and Planning said funds could be withheld should the contractor not meet contract requirements, such as average search timeliness. However, PTO's contracting official told us that PTO could not withhold funds to ensure performance. Regardless of which official is correct and whatever other recourse that may be available to PTO, these difficulties could have been avoided had PTO better managed its acceptance test program, particularly the test schedule associated with that program. In April 1985, PTO officials told us that they were planning to request further contractor corrections.

CONCLUSIONS

While it appears that PTO can accomplish the automation of certain of its trademark operations, the existing functional

requirements and cost/benefit analyses do not furnish an adequate basis for determining whether the results will achieve the initially established goals: improved registration quality, cost-effectiveness, and reduced application processing time. Correcting the deficiencies we have noted will require incorporating information beyond that contained in PTO's original analyses; this includes a comprehensive, functional description of the requirements to support the systems' use by PTO personnel and by the public. It should also employ the appropriate methodology in the cost/benefit analyses.

PTO's acceptance of equipment without adequate testing is illustrative of the problems in PTO's management of trademark automation. Failure to adhere to accepted principles in such areas has exposed PTO to risks of substandard performance in the completed system, and has contributed to the currently deficient search system.

The manner in which PTO has administered its exchange agreement authority in obtaining machine-readable data bases for its trademark systems has also created problems. PTO did not achieve the maximum practical level of competition in two of its three exchange agreements. Also, the specific terms of the exchange agreements created additional problems. The most visible of these is the restriction (accepted by PTO as part of the exchange agreements) on PTO's freedom to offer information on trademarks to the public.

PTO is attempting to redress some of these problems by renegotiating the restrictive elements of the exchange agreements. However, it is clear that at least some of the underlying causes are not being treated. Specifically, PTO persists in claiming that its exchange agreements for ADP resources are not procurements subject to the Brooks Act and to its applicable regulations. As previously noted, we disagree with this position. We are concerned that PTO may choose to execute future exchange agreements without complying with applicable procurement regulations and thus evade the procedures designed to ensure the maximum practical competitiveness and cost-effectiveness of its procurement actions.

RECOMMENDATIONS

To help ensure that automation goals and appropriate procurement practices are met, we recommend that the Secretary of Commerce direct the Acting Commissioner of Patents and Trademarks to:

--Reanalyze thoroughly the cost and benefits of PTO's trademark automation activities and ensure that any additional expenditures are justified. This analysis should (1) include updated cost information estimated according to standard practices, (2) incorporate the views of Trademark

Office officials, and (3) include support for the key assumptions.

--Review and, if necessary, revise PTO's systems specifications to ensure that all key requirements to support the systems' use by PTO personnel and by the public are met.

--Make all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark data bases obtained through the exchange agreements.

--Establish criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations. Such criteria and procedures should also require that PTO thoroughly analyze the value of future agreements and fully assess their impacts on PTO and the public.

To ensure appropriate oversight, we recommend that the Secretary of Commerce review and approve PTO's response to the above recommendations to assure that they are properly implemented. Until the Secretary is satisfied that PTO has appropriately reanalyzed the costs and benefits of PTO's trademark automation and reviewed the systems specifications, the Secretary should also require that any significant procurement actions regarding trademark automation efforts, including new procurements as well as modifications to or renewals of existing procurements, undergo departmental review and approval. This should include exchange agreement procurements.

We also recommend that the Secretary direct PTO to maintain its manual trademark system until the capabilities of its automated systems are at least equal to the manual system.

MATTER FOR CONSIDERATION OF THE CONGRESS

If PTO does not take steps to implement the above recommendations regarding exchange agreements, the Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisitions.

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We discussed key facts with agency program officials and made such changes as appropriate to reflect any relevant factual information they provided. However, we did not share our conclusions and recommendations with PTO's responsible officials or the contractors, nor did we request official agency or contractor comments on a draft of this report. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from its date of issuance. We will then send copies to the Secretary of Commerce, the Acting Commissioner of the Patent and Trademark Office, and other interested parties, and will make copies available to others upon request.

Sincerely yours,

Acting Comptroller General
of the United States

PROBLEMS EXPERIENCED IN AUTOMATING TRADEMARK OPERATIONS

In 1981, in response to a 1980 congressional mandate (Public Law 96-517) to prepare a plan to identify and, if necessary, develop office-wide automation, the Department of Commerce's Patent and Trademark Office (PTO) initiated a 20-year automation program. In its 1982 Automation Master Plan, PTO estimated that this program would cost about $720 million.[1] PTO plans to use automation to achieve paperless trademark and patent operations by 1990. The trademark automation effort, involving three automated systems and data base exchange agreements, is an important component of PTO's office-wide program. In February 1985, PTO estimated costs for trademark automation operation and development at about $22 million through 1988.[2]

This appendix details the results of our review of PTO's trademark automation efforts. In summary, we found that PTO did not (1) thoroughly analyze or develop the functional requirements for its or the public's use of its three automated systems; (2) adequately assess the costs and benefits of automation; (3) accurately value its three exchange agreements, effectively develop its first exchange, or achieve maximum practicable competition on its second and third exchanges; and (4) fully test its trademark search system before accepting it from a private contractor.

PTO'S TRADEMARK AUTOMATION EFFORTS

Trademarks--words or symbols that identify and distinguish products--are used to indicate the origin of goods and services.[3] Trademarks are registered with PTO primarily to help protect the owner's rights to the trademark.

Several PTO units are involved in PTO's trademark automation program. The Administrator for Automation and his staff (hereafter the Automation Office) manage the program. The Administrator reports to the Assistant Commissioner for Finance and Planning who

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[1]PTO's 1982 Automation Master Plan listed a high, 20-year cost estimate of $810.9 million and a low estimate of $719.9 million. The plan did not separate patent and trademark costs. PTO's Administrator for Automation told us that PTO could not separate trademark automation costs in the 1982 plan.

[2]According to PTO's Assistant Commissioner for Finance and Planning, trademark automation cost estimates range from about $16 million to $22.4 million, depending on the program composition.

[3]Service marks are used with services. Hereafter, for simplicity, both types of marks will be referred to as trademarks.

reports to the agency head, the PTO Commissioner. The automation program is designed to support PTO's two primary operational programs: granting patents and registering trademarks (responsibilities of the Assistant Commissioners for Patents and Trademarks). The primary users of PTO's automated trademark systems are under the Office of the Assistant Commissioner for Trademarks (hereafter the Trademark Office).

In addition, the office responsible for automatic data processing (ADP) contracting at the Department of Commerce, with the assistance of the PTO automation staff, developed and implemented contracts (except exchange agreements) for resources until October 1984. At that time, PTO established an in-house contracting office which is now responsible for all trademark automation contracts, except exchange agreements. This office reports to the Assistant Commissioner for Administration. PTO does not consider the exchange agreements to be procurements. The Automation Office developed and implemented the agreements that were signed by the Commissioner. According to PTO officials, the contracting office of the Department of Commerce was not involved in the exchanges, and the PTO contracting office only recently (December 1984) became involved when PTO decided to buy items that it originally sought to obtain through exchange agreements.

During 1982, PTO's Automation Office developed the Automation Master Plan to guide automation over the next 20 years. The plan discussed PTO's mission, general organizational requirements, automation management, and work tasks, and included a cost/benefit analysis of PTO automation. As part of the plan, PTO established three major goals for its trademark automation effort--improved registration quality, cost-effectiveness, and reduced application processing time. The plan, which was reviewed by several automation experts from other agencies and the public, stated that PTO should complete the task of specifying user requirements.

Since 1981, PTO has developed three systems to improve trademark operations. In total, these systems and related support cost over $9 million during fiscal years 1983 and 1984, according to a February 1985 PTO briefing document on trademark automation.[4] The most expensive of the three systems--the trademark search system--was developed to improve PTO's trademark search activity, a key step in the registration process which involves comparison of an applicant's trademark to other applications and the approximately 600,000 existing, registered trademarks to determine if the same or confusingly similar trademarks have already been applied for or are registered.

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[4]We did not attempt to determine PTO's 1981 and 1982 agency-wide costs, such as the cost of PTO's planning that culminated in its December 1982 Automation Master Plan. The Assistant Commissioner for Finance and Planning stated that PTO did not incur costs prior to 1983 for the current monitoring system (an upgrade of an earlier PTO system) or its other automated trademark systems.

This automated search system, which PTO acquired through a contract that provides for eight yearly renewals with the System Development Corporation, is estimated to cost about $10 million. PTO reported that it spent about $2.2 million on this search system through fiscal year 1984, the first year of the contract. The trademark application monitoring system was internally developed and was designed to monitor the status of trademark applications. PTO reported that this system cost about $2 million through 1984. PTO's computer-assisted retrieval system, which was designed to microfilm, retrieve, and print copies of PTO's original trademark documents, reportedly cost about $200,000 through 1984.

PTO's monitoring and retrieval systems became operational in April 1983 and February 1984, respectively. PTO accepted its search system from the contractor in June 1984. PTO has announced that it plans to eliminate the manual search facility after the automated search system becomes fully operational. As of April 12, 1985, PTO had not specified when this would occur.

In 1983, PTO signed three non-monetary (barter-type) exchange agreements with three private companies to obtain computer tapes of trademark information in a machine-readable form. On April 12, 1984, one exchange company acquired another and their agreements were consolidated into a new agreement with PTO in June 1984, leaving only two exchange agreements. These non-monetary agreements were for the exchange of items and services between PTO and the companies. PTO has authority to enter exchange agreements for items or services pursuant to Public Law 97-247 (August 27, 1982). These three contracts, with reported PTO costs of about $500,000 through 1984, were initially valued at about $3 million. Computer tapes obtained through these exchanges are used on PTO's searching and monitoring systems. PTO's remaining trademark automation costs of about $4 million cover such items as system engineering support and staffing.

In general, in return for the companies' typing PTO's data onto computer tapes (key-entering), PTO provided the companies with copies of registered trademark and application documents (from which trademark data tapes were developed) and agreed to provide future trademark tapes and to restrict the public's access to the trademark data. This is in contrast to the existing manual searching process which has no such restrictions.

With respect to the initial exchange agreement restrictions, the public would not have been allowed to use the more advanced capabilities of PTO's planned automated search system to access the trademark data. For example, in conformance with exchange agreement restrictions, the search system contract did not allow the public to search phonetically for trademarks that sound alike. The companies wanted restrictions on the automated system to ensure that PTO's search system did not compete with their trademark search business, according to PTO and company officials. Thus, at the time the agreements were reached, if PTO had terminated manual

searching according to its announced intentions, the effect of the public access restriction might have been to force the public to do business with one of the companies or forego the more effective trademark search techniques. In response to outcries from the trademark industry, PTO is considering allowing full-search access for a fee. The public currently uses PTO's manual search files and those elements of the automated system that are fully operational.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review responds to a July 11, 1984, request from the Chairman of the House Committee on Government Operations and subsequent discussions with his office. The objectives of our review were to evaluate the (1) adequacy of PTO's analyses of trademark systems' user requirements, (2) adequacy of PTO's 1982 analysis of the costs and benefits of trademark automation, (3) propriety of PTO's exchange agreements for a trademark data base, and (4) effectiveness of PTO's trademark automation contracting.

We reviewed PTO's evaluation of user needs, its 1982 cost/benefit analysis of trademark automation, and the three trademark data base exchange agreements. We did not review all PTO exchange agreements. We performed our review from August 1984 to April 1985, primarily at PTO in Arlington, Virginia.

In conducting this review, we interviewed PTO officials, trademark company officials, and officials representing trademark associations; reviewed their files; and analyzed PTO's automation planning documents and applicable federal laws and regulations.[5] We also obtained several sworn statements from individuals on key areas of controversy where we had received conflicting information.

With respect to user requirements, we analyzed PTO's requirements analyses to ascertain their completeness and the reasonableness of the assumptions used. We also contacted system users to determine their input and resulting impact on the development of PTO's systems. With respect to automation cost-effectiveness, we analyzed the cost/benefit analysis section of PTO's 1982 Automation Master Plan and reviewed available analytical documented evidence. With respect to exchange agreement propriety, we reviewed the previously cited laws and regulations and compared PTO's actions to these requirements. We also contacted industry and private-company representatives to confirm the information provided by PTO officials and to determine industry awareness of PTO's intent to enter exchange agreements and the impact of industry awareness on agreement competitiveness. Finally, with respect to PTO's automated search system, we reviewed the system contract, monitored some aspects of PTO's November 1984 system testing, and contacted users

[5]The applicable laws and regulations included 40 United States Code Section 759 (the Brooks Act), Public Law 96-517, Public Law 97-247, Federal Procurement Regulation Subparts 1-1 and 1-4, and Federal Property Management Regulations Subpart 101-35.

to determine whether the search system was meeting or was expected to meet their needs.

We discussed key facts with agency program officials and made such changes as appropriate to reflect any relevant factual information they provided. However, we did not share our conclusions and recommendations with PTO's responsible officials or the contractors, nor did we request official agency or contractor comments on a draft of this report. Except for these steps, our work was performed in accordance with generally accepted government auditing standards.

CERTAIN USER REQUIREMENTS WERE NOT IDENTIFIED

Federal Property Management Regulation Subchapter F, Part 101-35, required that before agencies acquire an ADP system, they must prepare a comprehensive requirements analysis to include, at a minimum, such critical factors as a study of data entry, handling, output needs, and "the ADP functions that must be performed to meet the mission need." We found that PTO did not develop detailed and complete requirements before acquiring its automated systems. While PTO subsequently corrected some of these oversights, PTO's incomplete analyses led to the acquisition of systems that do not fully and effectively meet user needs.

PTO did not adequately specify the requirements for its $10 million automated search system and, as a result, omitted important automated search features. For example, several PTO officials stated that they forgot to include a requirement for a basic searching technique in the December 1983 contract with the System Development Corporation. Industry and Trademark Office officials characterized this search technique as fundamental to trademark searching. PTO learned of the omission during system acceptance testing in May 1984 and subsequently modified the contract to include this requirement at an estimated cost of $70,255.

Similarly, PTO did not fully analyze or adequately specify searching requirements for public searchers prior to contract award, even though it allocated about one-third of the search system's terminals for public use. PTO announced in 1983 that the public's access to its automated search system would be "comparable and equivalent" to manual methods available at PTO's public search room. (In the December 1983 search system contract, PTO stated that the public would receive comparable and equivalent access, and PTO subsequently broadened and further specified what it meant by such access; however, this had not been incorporated in the contract.) In June 1984, after an outcry from the trademark industry regarding PTO's plan to restrict public access, PTO decided to offer the public full search system access, including the advanced search techniques that were desired by the public but were not previously planned for the public.

In July 1984, PTO issued internal guidelines specifying what it meant by "comparable and equivalent" and, in August 1984, issued

a change order for the contractor to modify the system to reflect the July 1984 guidelines. In October 1984, after completion of about $11,000 worth of work in this area, PTO cancelled this change order provision until it could resolve the public-access issue. As of April 1985, a final determination had not been made on the degree of modification which PTO's search system will undergo to allow full use by the public. An official from PTO's Automation Office told us he expected that the system changes required will be significant enough to require another contract modification.

PTO's two other trademark systems--the monitoring and retrieval systems--were also deficient, at least partially because of inadequate requirements analyses. According to Trademark Office officials, the monitoring system does not provide an adequate text-editing capability and, according to the Assistant Commissioners for Administration and Trademarks, the retrieval system does not produce the quality of paper required by and promised to public users. In developing the monitoring system, PTO did not identify all essential features needed for its computer terminals used for data editing until after it bought $46,000 worth of terminals that did not have the necessary capabilities, according to PTO officials. Consequently, PTO stored most of these terminals in a warehouse for about a year until it found another use for them. In addition, Trademark Office officials told us the terminals currently in use also do not have an adequate editing feature and have contributed to an unacceptably high input error rate, resulting in a $327,214 contract to verify and correct the errors. The Assistant Commissioner for Finance and Planning noted that these replacement terminals are scheduled for another replacement in August 1985. Similarly, in developing the retrieval system, PTO purchased microfilming equipment and a small computer for $137,000 before discovering that the system's hard copy printouts do not meet the needs of public searchers. Thus, according to PTO officials, the computer, which cost at least $67,000 is rarely used. The Administrator for Automation said that PTO currently plans to use the system for other purposes.

We also found indications that PTO recognized the incompleteness of its requirements analysis. PTO's Administrator for Automation, in a March 1984, internal memorandum, stated:

> "The lack of a consolidated, coherent functional requirement document, as was developed for patents, is a continuing handicap in Trademarks. This lack was the result of the more disjunctive approach to developing the Stage 1 Automated Trademark System (ATM) at the outset of the program. From a systems point of view, it would have been more efficient, over the long haul, to have deferred the development of the ATS system, including especially TRAM [the monitoring system], until the long-range concepts was [sic] solidified. Of course, that would have delayed all aspects of Trademark automation and the consequent benefits from it. This was a major consideration in following the current course."

While PTO performed analyses of user requirements, we believe these analyses were inadequate because they did not ensure that all basic requirements were specified for its trademark systems. Such weaknesses often result, as they did in PTO, in agencies' acquiring systems that do not fully respond to their needs. The previously mentioned comments from the Administrator for Automation regarding why PTO proceeded as it did, indicate that trademark automation was rushed so that PTO could obtain anticipated benefits of automation as quickly as possible. Nevertheless, PTO's incomplete analyses have resulted in systems that do not fully meet its needs.

AUTOMATION COSTS AND BENEFITS NOT ADEQUATELY ASSESSED

Federal Property Management Regulation Subchapter F, Part 101-35 required that agencies justify automation activities with a comprehensive requirements analysis, including consideration of "the cost/benefits that will accrue as a result of this performance." PTO's 1982 cost/benefit analysis indicated that automating the trademark operations would reduce its operating costs by about $77 million over a 20-year period. However, PTO did not include significant cost estimates of acquiring and operating its automated trademark system in computing the $77 million cost-reduction estimate. Also, according to the Administrator for Automation, PTO's analysis did not separate trademark and patent automation costs because the cost portion of the study was done on a PTO-wide basis and PTO's analysis of trademark automation did not reduce the total savings by expected trademark systems' acquisition and operating costs. While PTO prepared a cost/benefit analysis of trademark automation in 1982, this analysis was inadequate because it was based on assumptions that lacked analytical support and was not discounted. Because of these insufficiencies, we believe the savings estimates are not reliable. Other claimed automation benefits, such as increased registration quality and reduced application processing time, also were not supported by thorough analysis.

PTO's Automation Office and Trademark Office officials disagree on the extent, if any, of cost savings expected from the automation of trademark operations. PTO's Administrator for Automation told us that PTO's initial assumptions about life-cycle cost savings are still appropriate. However, PTO Trademark Office officials, including the Assistant Commissioner for Trademarks, contend that PTO's 1982 estimates, which were expected to start occurring in 1985, are based on questionable assumptions and are substantially overstated. PTO used several assumptions in its 1982 automation analysis to estimate that about one-third of the trademark budget could be saved annually through automation. For example, the Administrator for Automation explained that the 1982 analysis was based on the assumption that PTO would save money by eliminating a recurring trademark publication printing contract. However, the Assistant Commissioner for Trademarks and the Trademark Office staff disagree with this assumption. They explained that although PTO planned to eliminate this contract, any savings would be offset by the need for additional clerical support and additional editing

and proofreading costs that probably would continue indefinitely. When we presented this information to the Administrator for Automation, he reiterated his opinion that overall costs would be reduced over time by the initial estimate of about one-third of the budget annually. He added that although the Trademark Office officials may be correct about the offsetting costs, he still anticipated significant cost savings even though he could not specify when or exactly where they would occur.

Internal PTO disagreements over cost-savings assumptions are important because the different assumptions produce very different results. For example, if the 1982 cost/benefit savings estimate of $77 million is recomputed using current cost data, an estimating methodology that properly incorporates discounting, and a more conservative estimate that there will be a 10-percent reduction annually in Trademark Office operating costs (according to Trademark Office officials, the highest achievable percentage), the original estimated cost reduction becomes a cost increase. We could not determine the reasonableness of the assumption of either group of officials because there was insufficient evidence offered to support either set of assumptions.

Views of PTO officials on actual automation impacts to date also differ. On April 12, 1985, the Assistant Commissioner for Finance and Planning stated that the contract required for printing a recurring publication with annual costs of about $700,000, was being eliminated because PTO was now performing the contractor functions. He added that PTO will achieve actual savings from this contract cancellation even though there are some offsetting costs and stated that PTO related these actual savings to the Congress in a report on its automation progress. In contrast, the Assistant Commissioner for Trademarks stated that the contract cost savings is more than offset by about $1.3 million in new costs PTO was incurring to perform the functions.

With respect to the issue of discounting, the Administrator for Automation told us that PTO's 1982 analysis did not discount the 20-year gross savings projection to reflect the time value of money. We discounted the 1982 projections and found that the $77 million savings indicated in PTO's 1982 analysis is reduced to less than $41 million by such discounting.[6] The Administrator for Automation stated that PTO did not develop a more refined cost/benefit analysis because PTO's primary goal for trademark

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[6]Discounting is a standard practice by which expected future cash flows are estimated and reduced to reflect the time value of money. The estimate involved converting 1982 dollars to future dollars using an average annual inflation rate of 5.1 percent and then discounting at 11.03 percent. The inflation rate was derived by estimating federal pay increases because savings were based on personnel savings. The discount rate was based on U.S. Department of Treasury (bill and note) borrowing rates at the time of the study.

automation was to improve registration quality by using more comprehensive trademark searches on a more complete trademark file. He added that cost-effectiveness was not the primary goal.

PTO's anticipated benefits of improved registration quality and reduced application processing time also have not been supported by thorough PTO analysis. PTO planned to improve registration quality through improved file integrity by ensuring that its loosely bound paper search files were more accurate and complete in an automated data base form. While PTO officials have commented about lost and misfiled trademarks, PTO did not quantify the extent of its trademark paper-search, file-integrity problem and thus had little basis of comparison to determine whether automation would, in fact, improve data integrity and thus, registration quality. In this regard, PTO recently reported that 60 percent of the records in the automated data base contain at least one error. On March 12, 1985, PTO estimated that it would cost $655,832 to fully verify and correct these errors. The Assistant Commissioner for Trademarks stated that data base errors have prevented PTO's use of the automated system without manual search verification. The Assistant Commissioner for Trademarks stated that the data base contains too many errors for use without using manual verification. As of April 1985, the system still was not fully operational.

In addition, in its 1982 automation study, PTO planned to reduce a 19-month registration process by about 14 weeks through automation. Trademark Office officials told us, however, that instead of a 14-week savings, a maximum 2-week reduction in application time may be achieved through automation. PTO's Administrator for Automation stated that this particular estimate is based on time saved through (1) the use of machine-readable application forms and (2) a change to in-house printing of PTO's weekly publication of registered trademarks. However, the Assistant Commissioner for Trademarks and Trademark Office officials have stated that such accomplishments are not likely in the foreseeable future, if ever, and that the greatest time savings (a maximum of 2 weeks) would likely occur in the printing area. The Administrator for Automation stated that PTO has not conducted a pilot test to determine the potential savings of machine-readable trademark applications and has no specific plans to do so.

We believe the costs and benefits have not been adequately assessed. We recognize that predicting automation impacts is difficult. Nevertheless, the range of estimates between PTO's 1982 automation study and the views of PTO's Trademark Office officials, along with the lack of documented analytical bases for the estimates, indicate that PTO should recompute the estimates and support them with documented, analytical evidence.

PROBLEMS EXPERIENCED
WITH EXCHANGE AGREEMENTS

PTO's three exchange agreements with private companies to develop a trademark data base are non-monetary, barter-type agreements for the procurement of commercial ADP support services.[7] We found that (1) PTO did not accurately value all exchange provisions, (2) the development of the first exchange could have been improved, (3) PTO did not achieve maximum practical competition on the second and third agreements, and (4) PTO did not adequately consider all future impacts of the exchange agreements on PTO and the public. In addition, PTO has not established criteria for deciding what kinds of transactions are appropriate for exchanges. Furthermore, PTO does not consider exchanges to be procurements.

In January and May 1983, PTO signed exchange agreements with N.V. Compu-Mark S.A., Thomson and Thomson, and Trademark Computer Research Service, Inc., to develop computer tapes from PTO's trademark data for a machine-readable data base. PTO officials told us that exchange agreements were used as an appropriate exercise of its exchange authority primarily because funds were not available[8] to pay for the data base and because PTO considered the agreements an economical approach.

Under the exchanges, Compu-Mark "key-entered" onto a computer tape PTO's existing registered trademark text data, such as the words comprising the trademark; Computer Research agreed to key-enter PTO's future trademark application text data for the next 10 years; and Thomson agreed to digitize and code existing and

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[7]For additional details, see letter opinion, dated March 13, 1985, from the General Accounting Office's General Counsel to the Chairman, House Committee on Government Operations (B-217448). Also, the General Counsel of the General Services Administration agrees that the agreements are contracts for the procurement of commercial ADP support services. In an April 10, 1985, letter to the General Accounting Office, the Solicitor of PTO concluded that the exchange agreements are not procurements.

[8]In a February 13, 1984, letter to the United States Trademark Association, the then-Commissioner stated, "The overriding reason why the PTO chose the exchange-agreement method of acquiring the computerized trademark data base was because...the Office could not project sufficient resources in fees and appropriations to pay the $3 million to pay for the creation of the computerized trademark data base."

future trademark image data.[9] Image data is a digital representation of the trademark itself; coding specifies the type of image. In return for these services[10] (valued by PTO and the companies at about $3 million), the companies received from PTO (1) copies of registered trademarks and application documents (from which exchange tapes were developed), (2) an agreement to provide future trademark data tapes with unlimited restrictions on their use, and (3) assurance that it would restrict the public's access to the trademark data base.[11] This value was based primarily on PTO's estimate of the cost of creating the data base by means of a monetary key-entry procurement and PTO's judgments on other items, such as the value of office space PTO was to provide. The exchange agreements also included provisions that fixed PTO's future data-tape sales prices. In addition, according to Automation Office officials, the agreements provide that each party will use its "best efforts" to carry out its responsibility under the agreements. The Administrator for Automation told us that this provision means that compliance with these contracts is based upon a "gentleman's agreement."

Originally, the agreements PTO signed with the three companies restricted public access to the resulting trademark computerized data. Even though PTO planned to obtain a more advanced search capability, PTO agreed to restrict public access to methods "comparable and equivalent" to those provided through PTO's manual search facility. In June 1984, after an outcry from the trademark industry over this arrangement, PTO decided to allow unrestricted public access to its search system for a fee. Part of the charge would be a royalty fee to be paid to the companies. In December 1984, after receiving additional public complaints about these arrangements, PTO announced its intention to procure the trademark data by sole-source procurements with Compu-Mark and Thomson which would, according to PTO officials, effectively "buy out" at least some of the restrictive exchange agreement provisions. As of April 12, 1985, these procurements were being negotiated, and the scope, terms, and impacts of the buy out had not yet been resolved.

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[9]On April 12, 1984, Thomsom acquired Computer Research. As a result, a new agreement, reached in June 1984, essentially consolidated the previous twc agreements, leaving only two exchange partners, Thomson and Compu-Mark.

[10]Company and PTO officials explained that the trademark expertise of the exchange partners enhanced the source data entry services provided.

[11]Because the agreements include several ambiguous provisions and because PTO could not find complete copies of its original agreements, we supplemented our analysis of these documents with explanations from PTO and company officials.

Exchanges were not equal

PTO officials and the exchange agreements stated that items of equal value were exchanged. We found, however, that PTO initially placed no value on the agreements' provisions that restricted public access to PTO's automated search data base to "comparable and equivalent" access methods. Yet, through subsequent negotiations with the private companies, PTO and the private companies valued these provisions at $3.18 million. In essence, because these provisions only benefited the companies, they received about twice the value that they provided to PTO. (Industry officials questioned the value of other agreement provisions. Because no clearly valid estimate of value was available for such provisions, we concentrated on the valuation of the public restriction provision.)

In June 1984, after an outcry from the trademark industry regarding restricted access, PTO estimated that it could key-enter its own data base for $3.18 million and allow the public full use of its search system, according to the Assistant Commissioner for Finance and Planning. After PTO explained this to the companies, Compu-Mark and Thomson agreed that the public could be allowed to access the exchange agreement data with more advanced trademark search software at PTO headquarters. For this access, PTO agreed to collect royalty fees from the public totaling $6.04 million over 10 years with a present value of $3.18 million. (Current negotiations of the previously mentioned sole-source procurements may result in a different final value of the restricted access provisions.)

The Assistant Commissioner for Finance and Planning stated that the agreement valuations were based on values estimated by the receiving parties and that subsequent valuations of the restriction provisions should not be combined with the initial gross estimates of value. We disagree. We believe the subsequent valuations clearly demonstrate that PTO's initial valuations were incomplete and indicate that PTO provided greater benefits than it received.

The development of PTO's first exchange could have been improved

PTO's exchange agreements are contracts for the procurement of commercial ADP support services and are subject to the Brooks Act and the Federal Procurement Regulation.[12] The Brooks Act vests the

[12]See 41 Code of Federal Regulations Subpart 1-4.12, et seq.. This Subpart was in effect when the exchange agreements were signed in 1983. Effective Apr. 1, 1985, it was replaced by new provisions of the Federal Information Resources Management Regulation (FIRMR). Also, Subpart 1-4.12 incorporates by reference the other provisions of the Federal Procurement Regulation. The regulation was replaced by the Federal Acquisition Regulation, effective April 1984.

General Services Administration with central authority for the acquisition and management of ADP equipment. The act has been interpreted to cover not only equipment but also related ADP resources, including ADP support services. The Federal Procurement Regulation requires that government procurements be made on a competitive basis to the maximum extent practical.[13] In this regard, PTO reported to the Congress in its December 1982 Automation Master Plan that "all acquisition actions will conform to federal procurement regulations to achieve maximum practical competition...."

PTO did not follow procurement procedures required by the Brooks Act and the Federal Procurement Regulation because it did not and does not consider the exchanges to be procurements. Consequently, none of the exchange agreements were developed with these procurement regulations in mind. Nevertheless, we reviewed PTO's actions to determine whether they substantially conformed to the regulatory requirements for the procurement of commercial ADP support services. Under requirements of the Federal Procurement Regulation, before procuring commercial ADP support services, a federal agency must determine whether these services are available within the government or under General Services Administration contractual arrangements. If the services are not available, the agency may procure such services without the approval of the General Services Administration. The regulation also requires that maximum practicable competition among offerors who can meet an agency's ADP needs must be obtained to ensure that those needs are satisfied at the lowest overall cost, considering price and other factors. When only one contractor can meet an agency's needs, the agency is required to document the basis and justification for sole-source selection.

We concentrated on the requirement for maximum practicable competition because it is of central importance in assuring that the government's needs are satisfied at the lowest overall cost.[14] Regarding the first exchange, we could not conclude that PTO obtained maximum practicable competition because of the conflicting information we received. However, we found that PTO's approach to the first exchange may not have been the most effective way to assure that the government obtained the best bargain.

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[13]41 Code of Federal Regulations Sections 1-1.301-2 and 1-4.1206.

[14]Although the evidence did not establish whether PTO sought or could have obtained ADP support services through other federal agencies or under then-existing General Services Administration contracts, nothing in the nature of exchange agreements is inherently inconsistent with acquiring ADP support services in any of these ways.

Prior to the first exchange, PTO contacted several companies to discuss its overall ADP resource needs. During 1982, PTO did not publicly announce that it was interested in proposals for exchanges to acquire a computer data base of its current trademark records. However, when PTO publicly announced the exchange agreement with Compu-Mark in January 1983, it invited other companies to submit proposals for exchanges that were the same as or equivalent to the Compu-Mark arrangement. According to PTO, no companies responded to this initiative. Several company officials told us that, had they known that PTO wanted proposals for exchanges before the agreement with Compu-Mark had been consummated, they probably would have competed. We believe that, had PTO disseminated its needs and interest in entering into exchange agreements before signing the Compu-Mark agreement, it might have achieved more favorable terms on its first exchange.

During 1982 PTO relied on the knowledge of its executives and contacted, at different times, 12 companies that it considered interested and capable and discussed general trademark automation needs, such as software, hardware, and data bases. According to PTO's Administrator for Automation, as a result of these discussions, PTO agreed to an exchange with Compu-Mark in December 1982. Several weeks later, in January and February 1983, respectively, PTO announced in the Commerce Business Daily and the Official Gazette (an official PTO publication) the Compu-Mark agreement and its interest in entering into the same or equivalent agreements with other companies.[15] PTO officials told us that because no companies responded to these invitations, PTO's private negotiations in 1982 effectively included all appropriate companies.

Because PTO claimed that all interested and capable companies had been contacted in 1982, we contacted industry officials to verify that PTO's efforts had been effective. Officials from five companies--Datatrust, Computer Research, a third company that was contacted early in 1982 regarding a contract (but not an exchange), and two other companies that were not contacted in 1982 by PTO--told us they would have been interested in directly competing for PTO's first exchange agreement with Compu-Mark if they had been informed of PTO's needs and its interest in reaching an exchange agreement. The officials from companies that had been contacted in 1982 stated that PTO did not provide an opportunity to compete in 1982 because PTO did not advise them of the Compu-Mark agreement and its details. PTO officials stated that all companies had an opportunity in 1983 when PTO publicly invited equivalent proposals in its two early 1983 announcements of the Compu-Mark agreement.

We learned that three companies--Thomson, Computer Research, and Datatrust--which were in contact with PTO during 1982 (in

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[15]The February 1983 announcement stated, "The PTO would welcome proposals from other interested suppliers to provide the same or equivalent materials and services. Proposals received by Mar. 31, 1983, will be evaluated and considered by the Office."

addition to Compu-Mark) attempted to arrange exchange agreements from January 1983 to May 1983, after learning about the Compu-Mark agreement. No agreements comparable to the Compu-Mark exchange were reached although two of the companies--Thomson and Computer Research--subsequently entered into exchange agreements covering other kinds of data.

Regarding the Commerce Business Daily announcement, a representative of Datatrust provided the following sworn statement about 1983 negotiations with PTO.

> "[The PTO negotiating official] stated that PTO had an agreement with Compu-Mark for trademark text capture (key entry) and that PTO was seeking complementary proposals. [The PTO official] actively directed the discussion to consideration for a Datatrust proposal to code, classify, and capture trademark designs or images. I believe that the purpose and effect of his directing the discussion to this area was to restrict Datatrust to coding, classifying, and capturing trademark designs or images."

PTO officials explained that the only reason they may have needed a second company to duplicate the Compu-Mark agreement was to help validate the integrity of Compu-Mark produced data.

Datatrust officials told us that they also had discussed an image proposal with PTO but, in effect, were rejected in May 1983 when PTO announced that Thomson would be automating the image portion of the trademark data base.

Because Datatrust officials stated that their options for exchanges were effectively restricted, we contacted Thomson and Computer Research to determine how negotiations proceeded in early 1983. Officials from both companies stated that when they contacted PTO after the Compu-Mark agreement, PTO officials indicated that PTO had the text backfile agreement and that the companies should propose something else. In a sworn statement, the Computer Research official said that, "PTO effectively restricted the part of the trademark data base for which we could compete." He added that his firm was effectively limited to the future text data area, even though it was also interested in an image data base project. He explained that PTO's representative "indicated that PTO was interested in giving all interested parties a different 'piece of the pie'."

In response to company officials' comments, PTO's Administrator for Automation also provided a sworn statement. He stated that:

> "Before discussing or negotiating proposals further, I was explicit in verbally asking an official representing each company if they had seen the announcement - if they were interested in obtaining an identical CM [Compu-Mark]

agreement?...however, none of the four companies were (sic) interested in doing so. More general discussions were held with representatives of several other firms....In sum, no company was restricted from opportunities to provide any part of the trademark data base."

Because these discrepancies regarding verbal negotiations in 1983 could not be reconciled, we could not conclude whether PTO's public invitation to consider proposals that were the same as or equivalent to Compu-Mark's was genuine and was offered to assure that PTO would obtain services that were competitive with those being provided by Compu-Mark. We believe that, had PTO made its needs and interest in entering into exchange agreements better known before signing the Compu-Mark agreement, it might have achieved more favorable terms for the first exchange. The approach PTO followed may not have been, in our view, the most effective approach that could have been taken to obtain the best bargain for the government.

PTO did not achieve the required maximum practicable competition on its last two trademark exchanges

PTO's second and third exchange agreements are also contracts for commercial ADP support services, which are subject to the Brooks Act and the Federal Procurement Regulation. We believe that PTO did not obtain maximum practicable competition on these exchanges because of the following reasons.

--PTO did not publicly announce that it was seeking proposals for the kinds of data to be provided under the Computer Research and Thomson agreements. Although the January and February 1983 notices in the Commerce Business Daily and the Official Gazette, respectively, announcing the Compu-Mark agreement invited proposals from other interested firms for materials and services that were the same as or equivalent to Compu-Mark's offer, the Computer Research and Thomson offers were not the same or equivalent proposals. Compu-Mark would provide PTO with a computer data base of the text of all trademarks active at the time of its agreement. On the other hand, during a 10-year period, Computer Research and Thomson would, respectively, furnish PTO with (1) computer tapes of text information contained in future trademark applications and other trademark documents and (2) computer tapes of images of active trademark registrations and trademark applications which contain design elements as well as image coding.

--PTO had limited contacts with companies regarding the preparation of computer tapes of images or of future trademark applications and other documents. According to PTO officials, PTO's contacts were confined to a total of

four companies for the image and future trademark application tasks."[16]

--The announcements of the Computer Research and Thomson agreements in the May 20, 1983, Commerce Business Daily did not invite proposals from other interested firms for materials and services which were the same or equivalent to these two agreements. Rather, the announcements requested proposals only for exchanges of materials and services.[17] These requests were consistent with PTO's policy regarding exchange agreements, which was published in the Federal Register on May 5, 1983. Under this policy PTO will consider a proposal for a particular kind of exchange and is not required to solicit competitive proposals. PTO's policy states that:

> "Due to resource limitations and the necessity for diversity in the program, only one offer will normally be accepted for a given PTO incentive. If substantially similar offers are received within any 45-day period, they will be evaluated and/or negotiated together. The offer which provides the best total consideration for the Government will be accepted."

Consequently, we believe that PTO did not obtain maximum practical competition on the second and third exchanges. Because PTO did not publicly announce requests for proposals and had limited contacts with companies regarding its proposals before it entered the Computer Research and Thomson agreements, PTO was unable to ensure that it would receive enough offers from firms that could meet its needs at the lowest overall cost, price and other factors considered. PTO also was not prepared to enter into other arrangements that were competitive with the Computer Research and Thomson agreements. Both its invitation for proposals in the Commerce Business Daily announcements of these agreements and its exchange agreement policy did not contemplate that there would be other agreements for the type of data bases Computer Research and Thomson would furnish.[18]

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[16]PTO officials stated that they had other contacts with companies for ADP resources during January 1983 through May 1983 but added that PTO did not specifically discuss future text or image proposals.

[17]The May 20, 1983, Commerce Business Daily notice stated, "The PTO welcomes proposals from other suppliers for the exchange of materials and services."

[18]We found no documentation which established the basis and justification for PTO's sole-source selection of Computer Research and Thomson as required by 41. C.F.R.S. 1-4.1206-5.

Impacts on PTO and the public not adequately considered

PTO's exchange agreement contracts have had, and may continue to have, significant impacts on PTO, the public, and the trademark industry that are unrelated to the primary purpose of the exchange--the acquisition of a trademark data base. Through provisions agreed to by PTO in the exchange contracts, PTO effectively (1) relinquished some control over the use of some of its ADP resources, (2) fixed the price it charged the public for automated data tapes at seven times the previous price, and (3) restricted its ability to use available and new information technologies to disseminate trademark data. In addition, PTO's administration of these agreements has been deficient because PTO did not carefully and thoroughly plan and implement the agreements.

One important agreement provision restricted the public's access to the resulting data base, thereby restricting PTO's control over some of its ADP resources. While each agreement used slightly different language, the provisions were substantially the same in stating that:

> "Terminals made available to members of the public for the purpose of using data elements derived from...[the agreements]...will be used only with search techniques comparable and equivalent to the present manual paper file searching in the PTO Trademark Search Library."

Company officials explained that this provision was important to them because the companies initially required assurances that PTO would not offer its advanced trademark search capability to the public. PTO's Administrator for Automation told us that, although PTO initially agreed to this restriction, PTO wanted to continue to provide the public with a search capability "comparable and equivalent" to the capability offered through manual searching. The public has always been allowed free access to PTO's manual search files.

In 1983, when PTO signed the agreements, with terms extending to 1993, it effectively agreed to restrict the public's use of its then planned search system. In 1984, after an outcry from the trademark industry regarding PTO's planned restrictions on public access, PTO decided to provide the public with full access to its automated search system. Nevertheless, because of the exchange agreements' public-use restrictions, PTO was required to renegotiate with the companies to obtain approval on the type and cost of public access to PTO's automated search system. Thus, because of the restrictions, PTO effectively had to seek permission from the companies before it could provide the public with the full range of capabilities of its $10 million search system.

In June 1984, the initial restrictions were amended by PTO's agreement to collect a royalty fee for the companies from the public for the public's access to the trademark data using the more

advanced capabilities of the PTO search system. Subsequently, the planned charges for unrestricted public access using a specific number of PTO terminals were publicly announced for comment. The charges consisted of a $40 per hour base fee for comparable and equivalent access and a $30 royalty fee for the companies because the companies allowed access using the more advanced capabilities. This proposed fee has not yet been finalized. To develop its access fee, PTO briefly analyzed the two key components of the fee--public search volume and PTO's trademark search costs. PTO used a 1-week survey of the public search room to estimate volume of usage and included in the search costs its overhead costs and some trademark search system costs, which may not be directly attributable to the public's access.

Other agreement provisions also resulted in significant current and possible future impacts on the public's access to PTO trademark data. These provisions require that PTO not sell, and exert its best efforts to prevent others from obtaining in a computer-readable form, the trademark application data, the historic trademark text data, and all image data obtained from the companies through the exchanges. The provisions also prevented electronic dial-up access from outside PTO, except from its affiliated Patent Depository Libraries located around the country.

In addition, PTO agreed to fix the price for a year of its "Official Gazette Trademarks" computer tapes to a figure that was seven times its previous price. Prior to the agreements, PTO had been making certain tapes available to the public through the Department of Commerce at a price of $6,150. Now, under the agreements, PTO must sell this data for a price that PTO officials describe as an estimated fair market value of $43,200.[19] Furthermore, only Compu-Mark and Thomson can sell the tapes for less. According to PTO officials, the $43,200 price effectively recovers PTO's total estimated costs of data entry. Thus, PTO can recover its total estimated key-entry costs in one sale. In addition, the Assistant Commissioner for Finance and Planning told us that PTO would recover all costs and make a profit on the first sale. One prospective purchaser was placed in the unenviable position of seeking this data from a competitor, Compu-Mark, after PTO quoted him the new price. According to the prospective purchaser, PTO suggested that he contact Compu-Mark if he wanted to obtain the data at a lower price.

Currently, PTO is negotiating to pay to have at least some of the restrictions in the agreements removed. If PTO had developed its data base under contract for a monetary fee, it would have retained sole control over the use and dissemination of its data.

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[19] A PTO official explained that purchasers paying the $43,200 price for the 1984 tape would also receive prior years' tapes and that subsequent tapes would cost $43,200 per year.

In addition, PTO would have been free to use existing and new technologies, such as remote access to the search system through microcomputers, to disseminate trademark data.

Administrative problems

In reviewing PTO's trademark exchange agreements, we also noted several administrative deficiencies. First, PTO has yet to establish criteria defining when exchanges rather than monetary government procurement contracts should be used. The Assistant Commissioner for Finance and Planning said PTO uses exchange agreements when the planned exchange meets the intent and provisions of PTO's exchange agreement authority and when no money is involved. We question the effectiveness of such general guidelines. For example, under the present exchange agreements PTO ultimately plans to pay money for exchange items even though PTO initially intended to exchange only items and services. Furthermore, PTO's legislative authority does not effectively substitute for guidelines on when exchanges should be used because the legislative authority does not specify the circumstances under which exchanges are most appropriate. The authority states that the PTO Commissioner, "shall have the authority to carry on studies, programs, or exchanges of items or services regarding domestic and international patent and trademark law or the administration of the Patent and Trademark Office...."

In addition, while PTO's exchange agreement policy of May 2, 1983, described exchange agreements and explained how PTO intended to administer its exchange authority, it did not specify what kinds of transactions are appropriate for exchanges. Furthermore, this policy was not publicly announced until May 5, 1983--3 months after its first exchange agreement was signed and only a few days before its second and third agreements were signed.

Second, at the time of the signing of its exchange agreements, PTO had not resolved basic contractual requirements, such as specifications for keying and the definition of "comparable and equivalent" public access. When PTO later specified the keying instructions, it had to agree to provide additional goods and services as payment to one agreement partner.

Third, the primary control feature in the agreements is a provision requiring best efforts by each party. We believe controlling these contracts through what PTO officials describe as a "gentleman's agreement" approach is risky because it does not specify obligations or establish incentives to assure quality and timely delivery of data or allow PTO the right to effective redress for unsatisfactory performance. For example, PTO could not ensure delivery (and actually did not initially schedule timely delivery) of critical image data for its acceptance test of its trademark search system that PTO accepted in June 1984. (The acceptance test is the subject of the next section.)

Finally, PTO could not locate for us a complete copy of two of its three original exchange agreements. Through more thorough, careful planning and management, these problems could have been avoided.

SEARCH SYSTEM ACCEPTED WITHOUT BEING FULLY TESTED

PTO's search system contract with the System Development Corporation stipulates that government acceptance of the system is "contingent upon the system passing all tests associated with the acceptance program." The image retrieval subsystem was an integral part of the search system.

We found that PTO excluded from the acceptance program any tests of the image retrieval subsystem because it knew that the necessary data base would not be available in time for the schedule delivery of the subsystem. PTO made an agreement with the contractor to test the image retrieval subsystem at a later date. Nevertheless, PTO chose to officially accept the entire search system based on a partial test. Furthermore, PTO stated in a June 21, 1984, letter to the contractor that "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System."

In its first test, PTO compared the system to its (1) general workstation requirements, (2) search requirements, and (3) timeliness requirements. However, PTO did not test the system with an image data base until November 1984, 5 months after it had already accepted the total system. During the November test, PTO learned that the system did not meet a mandatory search timeliness requirement. PTO retested the system for timeliness in April 1985 and found that it met this requirement; however, another requirement was found to be deficient. Nevertheless, PTO accepted the system in June 1984, without assurance that it would meet the contract specifications.

PTO divided its acceptance test into two sections--text retrieval and image retrieval--because required image data from an exchange agreement company was scheduled by PTO for delivery during June through August 1984, after the contractually scheduled system test in April 1984. Also, PTO accepted the system months before the image data was installed. The first test covering text retrieval began on May 16, 1984, and concluded when PTO accepted the total system on June 21, 1984. The second test for the image retrieval component began on November 28, 1984.

According to a private consultant who assisted PTO in its tests, PTO's first test of hardware, operating software, and text retrieval features was conducted on May 16, 1984, under the following "constrained" conditions:

--PTO tested only text searching.

--The text data base was incomplete and partially inaccurate.

--Only 18 of 61 search terminals were tested simultaneously.[20]

During testing, PTO identified several areas where the system did not satisfy, or only partially satisfied, functional requirements identified in the contract. Specifically, the system could not search across a range of trademark classes, nor could it search words that had three or more consecutive letters or numbers (such as AAA or 777). In addition, while the system met a 16-minute search timeliness requirement, the average completion time of 14.7 minutes was achieved only under the above constrained conditions. PTO officials told us that if images had been included during the first test, the system probably would not have passed. Also, the test team noted that as the number of terminals increased, response time slowed, a further indication that the constrained conditions assisted the system in passing the acceptance test.

Even though the trademark search system did not pass all requirements, PTO, in a June 21, 1984, letter stated that, "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System." This acceptance letter did not state that only the text retrieval component was accepted or that certain functional requirements needed further correction. PTO contracting officials told us that the total system had been accepted, regardless of the outcome of the second acceptance test. PTO's Test Director explained that PTO accepted the full system because the shortcomings were minor and PTO assumed that they would be addressed later by the contractor. However, the Assistant Commissioner for Trademarks wrote an internal memorandum on June 22, 1984, that she concurred with acceptance of the text retrieval component, provided that the identified problems would be corrected and the image retrieval component tested before the full system was accepted.

On November 28, 1984, PTO began its second test. PTO tested the same requirements (except for the previously tested text retrieval features) and added the image retrieval feature. This test was also conducted under "constrained" conditions. Many of the design codes which are the basis for image searching were

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[20]Although 70 terminals are required by the contract, 9 terminals are planned for administrative use.

missing from the data base and no more than 40 of the 61 search terminals were simultaneously tested. During testing, several deficiencies were noted in the general workstation requirements test. For example, according to PTO's test team, the contractor did not provide easily understood, documented, "user friendly" instructions on system use--a problem that had been noted during the first test. In addition, according to the test team, while the required capability to search across a range of trademark classes worked, it was too slow for practical use.

The most disturbing result of the second test was the system's slow search time. The system averaged more than 20 minutes per search--over 4 minutes slower than the contractual requirement. Design mark searches were especially high, averaging over 27 minutes. The second test also documented that automated searching was slower than the manual approach since the 16-minute search time criterion was based on a PTO estimate of the average time required to perform manual searches.

As a result of the second test, PTO directed the contractor to correct the deficiencies noted. According to a PTO Trademark Office official, the contractor corrected the functional requirements by February 28, 1985. PTO retested the system for timeliness in April 1985 and reported that it met this requirement. However, this same PTO official also told us that the system now would not accommodate 10 simultaneous image searches (a contract official concurred that the contract required that the system be able to accommodate a minimum of 24 simultaneous image searches), and that PTO was requesting further contractor corrections.

PTO's Assistant Commissioner for Finance and Planning stated that PTO could withhold funds if the contractor did not meet contract requirements, such as average search timeliness. However, a PTO contracting official told us that PTO could not withhold funds to ensure performance.

Regardless of which official is correct and whatever other recourse that may be available to PTO, these difficulties could have been avoided had PTO better managed its acceptance test program, particularly the test schedule associated with that program.

APPENDIX IV

ARTICLES

Bucking the Administration:

House Judiciary Votes Curbs On Size, Use of Patent Fees

The House Judiciary Committee May 15 approved legislation reauthorizing the Patent and Trademark Office for three years, after putting restrictions on the amount and use of fees collected for patent examinations.

In response to a critical report from the General Accounting Office (GAO), the panel also increased congressional control over the office's efforts to automate its operations.

The measure (HR 2434) was approved by voice vote. Administration officials were not entirely happy with the committee bill, and Michael K. Kirk, a Patent Office spokesman, said officials plan to work with committee members to reach a "mutually satisfactory proposal" before the full House considers the bill.

The bill authorized $101.6 million for fiscal 1986, $110.4 million for 1987, and $111.9 million for 1988.

The administration had asked only $84.7 million for fiscal 1986. While the office estimated it needed $101 million, the Office of Management and Budget said that the $16 million shortfall should be made up from an excess of fees collected in previous years.

Patent Office History, Duties

The Patent and Trademark Office is one of the oldest federal agencies. It was established in 1790 to fulfill the mandate of Article I, Section 8 of the Constitution, which gave Congress power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

The 1790 legislation creating a patent board defined the subject matter of a patent and established a tribunal composed of the secretary of state, the secretary of war and the attorney general to rule on patent applications.

In 1802, the office became a separate unit within the State Department. In 1849, the patent office, by then a bureau, was transferred to the Interior Department. In 1870, the office was given general jurisdiction over trademarks as well as patents.

In 1926, the office moved to the Commerce Department, where it has remained ever since.

In its first year, the office granted three patents. In 1984, it granted 72,149, according to a spokesman. In 1870, 121 trademarks were registered. In 1984, the number was 45,475.

Patent examiners look at applications and decide whether a particular invention qualifies for a patent. If a patent is granted, the inventor can exclude all others from making, using or selling his invention for 17 years.

The Patent Office also collects, publishes and distributes technical information that is disclosed in documents granting the patent.

In addition, the office examines trademark applications to determine whether to grant protection to "distinguishing characteristics, symbols or features associated with a particular trade or business."

Fee Flap

In 1980 and 1982, Congress revised the authority of the patent commissioner to set fees to cover the cost of processing patent and trademark applications. The 1982 law set up a two-tiered system, requiring large firms to pay at a level that recoups 100 percent of patent application and maintenance costs, while individual inventors, small firms and non-profit organizations pay at a rate designed to recoup 50 percent of costs. *(1980 Almanac p. 405; 1982 Almanac p. 384)*

Testifying March 21 before the House Judiciary Subcommittee on Courts, Civil Liberties and Administration of Justice, Donald W. Banner, a former patent commissioner, criticized the administration's proposed use of patent fees to reduce the annual appropriation for running the office.

Banner said Congress had intended for patent fees to be used to improve office operations, but that appropriated funds still would be necessary for many other things, such as keeping libraries up to date and training examiners.

While fees can help cut appropriations, this was to be a gradual process, Banner said. The administration, he added, was moving too fast.

Banner, representing Intellectual Property Owners, Inc., was particularly upset about the office's proposal to charge a user fee for public search rooms. These rooms contain public documents, such as the trademarks and patents that have been issued, and descriptions of how an invention was created and how it works.

As approved by the committee, HR 2434 bars the office from charging user fees for these search rooms. The bill also bars the commissioner from increasing patent and trademark fees in fiscal 1986-88 except for minor adjustments.

In addition, the bill prohibits the office from using fees to buy equipment to automate its operations. Instead, the office must seek an appropriation for such purchases.

This provision, proposed by Jack Brooks, D-Texas, is in response to the GAO report's conclusion that the office had been deficient thus far in its efforts to automate operations.

Another Brooks provision bars the office from engaging for three years in "exchange agreements" with private companies to get automatic data processing equipment. The provision exempts agreements with foreign governments.

In its report, the GAO said that while the Patent and Trademark Office received benefits from its existing exchange agreements, the benefits were less than those the companies got in return. The office gave companies special access to trademark data, and agreed to restrict the public's access to its trademark data base. ■

—*By Nadine Cohodas*

The Constitution authorizes Congress to "promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

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Forbes June 17, 1985

Technology

Software

The Trademark Office expected to be fully automated by September 1985. By October, if it's lucky, it might be fully manual.

A complete fiasco

By Francesca Lunzer

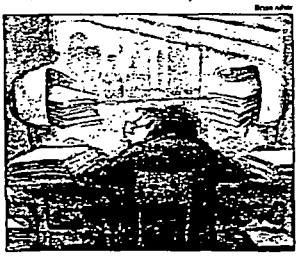
THE U.S. PATENT & Trademark Office, which has been trying to automate for at least the last decade, is in a mess right now.

In 1980 Congress instructed the Patent & Trademark Office (PTO) to automate its operations. Most foreign patent offices had long since computerized, and the time it took to do a patent and trademark search in the U.S., it was felt, was imperiling American business. Automation was deemed essential if the legal and property rights inherent in the 100,000 patent applications and 60,000 trademark registration applications submitted each year were to be protected.

A patent confers on its owner the right to exclude others from making, using or selling his product for 17 years. Trademark registration helps prevent anyone from adopting a mark that another is already using to identify similar goods or services. During the time it takes PTO examiners to cross-check applications against existing patents or trademarks—now about two years—an applicant is not only left open to patent infringement but will also find it difficult to attract investors.

Automating the files, government experts believed, would reduce the processing time by as much as six months. More important, the incontestability of registered patents and trademarks might vastly improve. Six hundred lawsuits are brought each year challenging the originality of patents, in part because the search files often don't turn up patents already issued.

Laudable intent but lamentable execution. The PTO, which estimated the job would cost $700 million, started the automation with trademarks, assuming that the task would be easier and less expensive. That cost has risen from an estimated $6 million in 1982 to $40 million today.



How could costs rise nearly 570% in three years? A General Accounting Office report, released in mid-April, faults the PTO for buying inadequate computer hardware. According to the report, the PTO bought terminals that didn't have the necessary data editing capabilities. They were supplemented by another set of computers, which were no better. Now, a third set is being sought. Because of the terminals' limitations, the data entered contained a lot of errors. Solution? The PTO spent $327,214 on a proofreading contract. According to testimony by the U.S. Trade Association, "New problems, errors and gaps in the database emerge regularly."

Then there is the software, designed by System Development Corp., a subsidiary of Burroughs Corp. It was accepted by the PTO in June 1984, before it was fully tested, because the design database wasn't available in time. When it was tested, the search time was found to be four minutes slower than the average manual search. According to the PTO's administrator of automation, Howard Bryant, whose office is preparing a rebuttal to the GAO report, the instructions given to the database contractor weren't explicit enough.

That's not the half of it. The automation contract may well have been illegal. The Patent & Trademark Office has been trying to pay for the automation out of user fees, which Congress stipulated were to cover only trademark processing costs and not capital expenditures. By misappropriating funds, the Trademark Office has managed not to ask Congress for any money since 1982. That, it turns out, is not as laudable as it sounds. In order to save even more money, the databases to be created using current and future registrations and relevant information were not paid for; they were obtained by barter.

Unfortunately, the government bartered away some very valuable property. It gave the database vendors, Thomson & Thomson, which is owned by a British firm, and Compu-Mark, a Belgian firm, what amounts to a copyright on the data the PTO supplied. That's astounding considering that all the vendors were doing was entering the Trademark Office's data into a computer. As a result, there is a proposed fee of $70 per hour for public use of the databases, $30 of which represents a royalty to the two companies. Properly miffed, the House Judiciary Committee in mid-May adopted a reauthorization bill for the PTO that, among other things, disallows a user fee for either the patent or trademark search rooms and stipulates that automation cannot be obtained by the exchange of items or services or by user fee revenue.

So where does this leave the automation of the Patent Office? If the bill is voted on as it now stands, says Bryant, "The entire trademark automation program closes down on Oct. 1, because the probability of our being able to get appropriated tax money in 1986 is zero."

And the people automation was to help? They will go back to doing things the old-fashioned way—by hand.

APPENDIX V

CORRESPONDENCE

NINETY-NINTH CONGRESS

PETER W. RODINO, JR. (N.J.), CHAIRMAN

JACK BROOKS, TEXAS
ROBERT W. KASTENMEIER, WISCONSIN
DON EDWARDS, CALIFORNIA
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HARLEY O. STAGGERS, JR., WEST VIRGINIA

HAMILTON FISH, JR., NEW YORK
CARLOS J. MOORHEAD, CALIFORNIA
HENRY J. HYDE, ILLINOIS
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GENERAL COUNSEL:
M. ELAINE MIELKE
STAFF DIRECTOR:
GARNER J. CLINE
ASSOCIATE COUNSEL:
ALAN F. COFFEY, JR.

U.S. House of Representatives
Committee on the Judiciary
Washington, DC 20515
Telephone: 202-225-3951

April 4, 1985

Mr. Richard Witte
Director (Patent Division) - Proctor & Gamble Co.
Ivorydale Technical Center
Cincinnati, Ohio 45217

Dear Mr. Witte:

The purpose of this letter is to ask your opinion about a proposal by the Patent and Trademark Office first to computerize its trademark records and then to require that the public pay up to $70.00 an hour to use computer terminals to search the database. The database will be the only official source of information on whether trademarks are federally registered. I am less interested in the policy decision to automate -- which was congressionally authorized -- than in the budgetary decision to finance the automation by assessing fees for terminal use.

In formulating your response, you should be aware of the fact that PTO has proposed a fall-back fee system: $40.00 an hour for terminal use and six free hours per year for every American citizen. However, even under this alternative plan, the issues essentially remain the same.

You should also know that the issue of public access to trademark records is likely to arise later in the context of automation of the patent files. Furthermore, any system developed for patents and trademarks could later be replicated by the Library of Congress for copyrights and mask works (e.g., semiconductor chip products).

My questions are as follows:

(1) From a policy perspective, is our intellectual property system rooted in the proposition that the public should have free access to official government records?

(2) Are there statutory or legal impediments to limiting -- through a user fee system -- public access to trademark records? In responding to this question, you may wish to consider the

Trademark Counterfeiting Act (18 U.S.C. 2320, as added by Public Law 98-473), which requires "intentional" trafficking and "knowing" use of a counterfeited mark.

3. Are there constitutional problems that should be considered for trademarks? For patents?

I would appreciate a reply to my questions by April 22, 1985, since all budget legislation must be processed not only by my subcommittee but also by the full Judiciary Committee before mid-May. Your response need not be lengthy.

In advance, thank you for your assistance on this important matter.

Sincerely,

Robert W. Kastenmeier
Chairman
Subcommittee on Courts,
Civil Liberties and the
Administration of Justice

RWK:mr

THE PROCTER & GAMBLE COMPANY

PATENT DIVISION

IVORYDALE TECHNICAL CENTER
CINCINNATI, OHIO 45217

April 11, 1985

APR 16 1985

The Honorable Robert W. Kastenmeier
United States House of Representatives
Committee on the Judiciary
Washington, D.C. 20515

Dear Congressman Kastenmeier:

This is in response to the questions in your letter of April 4, 1985 about the proposal of the Patent and Trademark Office to computerize trademark records.

(1) I agree that, from a policy prospective, the public should have free access to official government records relating to patents, trademarks and copyrights. The public, however, should be expected to pay the usual, nominal fees for making copies of records and for copies of issued patents and trademark registrations.

(2) I believe that the principal legal impediment to a user fee system is that inherent in the federal grant of the proprietary rights relative to trademarks. If the government grants such rights, with with enforceable remedies, it should not charge fees to a member of the public for the simple act of trying to learn about the grant. Members of the public are entitled to that knowledge for the purposes of avoiding liability or of attempting to establish rights of their own.

It is unpersuasive to argue that there may be some trademark records in some paper form, but difficult to search, available to the public without a fee. All official records, particularly those which are readily searchable, e.g. by computer, should be available without fee.

(3) I do not see any constitutional problems relative to the trademark issue. For patents, however, I believe there would be a constitutional problem. The constitutional purpose of any patent system which Congress chooses to establish is "to promote the progress of science and useful arts". The charging of fees for access to patents granted for this purpose would be inconsistent with this. Trademarks do not have a clear basis in the constitution. The commerce clause justifies a trademark law, but would not, I believe, support a free access argument.

I believe that the Patent and Trademark Office was very well intentioned when they developed the user fee proposal. They had congressional pressure to automate, but also pressure to economize. Moreover, there was pressure from the bar and the public to improve their records and the examination process. Having poor records may be a worse situation than requiring fees for access to improved records. The PTO plan involved savings and resulted in an expeditious and worthwhile improvement. I believe that public funds should be made available to improve the official trademark and patent records and to permit free access to them. The existing fees to trademark registrants and patent applicants should not be used or increased for these purposes.

Richard C. Witte
Chief Patent Counsel

RCW163/ebh

Monsanto

RUDOLPH J. ANDERSON, JR.
General Patent Counsel

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63167
Phone: (314) 694-3714

April 16, 1985

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

Dear Mr. Kastenmeier:

It is my opinion that the United States Patent and Trademark office has a public policy, a statutory obligation and a constitutional obligation to maintain a public search system providing free access to registered and pending trademarks and to issued patents.

Rights in a trademark are based upon use under common law principals. More than 100 years ago, Congress established a Federal system of trademark registration to create a public record of trademark rights. For that same period of time, the Commissioner has been charged with registering trademarks and maintaining a public record and, for more than 100 years, the Commissioner has carried out this statutory obligation. During this entire period of time, the trademark records have been accessible at no cost.

There is nothing in Public Law 96-517 or 95-247 that indicates Congress intended to change the system with respect to either trademarks or patents. The public policy considerations are so strong that it is inconceivable that Congress could have intended such a fundamental change in the trademark and patent systems without addressing the issue.

The constructive notice provision of the Lanham Act is one of the most important benefits of registration. It is my opinion that the Commissioner has no basis upon which to justify imposing a fee to access a public record, especially when the public is constructively charged as having notice of the information in the record. Also, constructive notice is certainly not a "service"

as contemplated by 96-517 or 97-247 (relating to the establishment of a computerized data and retrieval system and to a fee schedule respectively).

Another consideration is the Trademark Counterfeiting Act mentioned in your letter of April 4. For the first time under our law, criminal penalties will be imposed upon persons counterfeiting a registered trademark. For the Commissioner to impose fees on the public to determine if a trademark is registered raises significant constitutional questions under the due process clause when a criminal violation is involved.

I know of no other comparable agency which charges the public a fee to access records which the agency is required to maintain. The Copyright Office has maintained a public search room for almost 100 years and, since 1978, these records have been maintained in an automated search system. The Copyright Office does not impose a fee for accessing its records nor does it have any intention of doing so. The Copyright Office, like the USPTO and other agencies, imposes fees for the services of making copies of records or for locating a document but no fees are charged to the public for simply looking at the records.

It is my belief that Congress properly determined a long time ago that the maintenance of a public record of trademarks and of patents is a Government function. The cost of carrying out this function should be borne by appropriations to the extent that if the USPTO does not have sufficient funds to provide free access to the records, it should seek funding from Congress.

Sincerely,

Rudolph J. Anderson, Jr.

EMORY UNIVERSITY
School of Law

Gambrell Hall
Atlanta, Georgia 30322
404/329-6816

April 16, 1985

The Honorable Robert W. Kastenmeier
U. S. House of Representatives
Committee on the Judiciary
Washington, D. C. 20515

Dear Congressman Kastenmeier:

This letter is in response to your inquiry for an opinion on the proposal by the Patent and Trademark Office to computerize trademark records and to require the public to pay up to $70.00 an hour to use computer terminals to search the database.

My response to your questions is as follows.

1. Is our intellectual property system rooted in the proposition that the public should have free access to official government records?

My conclusion is yes. I base this conclusion on the proposition that the law of intellectual property is primary regulatory in nature. While this position may appear to be heretical to some, I believe the various copyright statutes in this country support it. Consider, for example, the limited nature of the rights of the copyright owner in the 1790 Act and the compulsory licenses in the 1909 and 1976 Acts. While I do not have the familiarity with the patent statutes that I have with the copyright statutes, I believe they too support the point.

Since the law of intellectual property is a law governing rights to the use of the property, it seems to me that a reasonable inference is that the system requires that the public have free access to official government records pertaining to those rights of use.

2. Are there statutory or legal impediments to limiting--through a user fee system--public access to trademark records?

The major legal impediment to the requirement of a fee to have access to trademarks is 18 U.S.C. sec. 2320, the

Trademark Counterfeiting Act, which requires a person to use the principal register in the PTO to know whether a mark he uses is registered in order to avoid committing a crime. To charge a person for learning the law that he must comply with is contrary to all American precedent.

3. Are there constitutional problems that should be considered for trademarks? For patents?

There is, as I see it, a constitutional problem in regard to both patents and trademarks. The records of both can be viewed as law in that they define the scope of the legal rights of the patent and trademark owner. To avoid an infringement of those rights, another has to know the scope of those rights. The effect of charging for access to the records is thus to charge the public for access to the law. This is a matter of due process dimensions.

There is a helpful analogy here. If the Supreme Court decided to computerize its opinions and charge a fee to use computer terminals to have access to them, there is little doubt that Congress would act to prohibit this. The Court, of course, would not take such action, but the analogy makes the point. In a society where the rule of law is paramount, to charge the pulbic for access to the law is a first step, however tenative, on the road to tyranny.

As you can see, I am opposed to the proposed charge on philosophical grounds. The principle that citizens have a right of free access to records which in fact constitute law should remain inviolate. But it may be appropriate to charge users a fee for access to the records when additional access is provided as a matter of convenience to the user. Thus, if the PTO enables persons to have remote access to the database, this is a convenience for which a charge might be appropriate.

Sincerely,



L. Ray Patterson
Professor of Law

STANFORD LAW SCHOOL

19 April 1985

Hon. Robert W. Kastenmeier
Chairman
Subcommittee on Courts,
Civil Liberties and the
Administration of Justice
U.S. House of Representatives
Washington, D.C. 20515

By: Federal Express

Dear Bob:

This letter is in response to yours of 4 April soliciting my views on a proposal by the Patent and Trademark Office to computerize its trademark records and require members of the public to pay an hourly fee to use computer terminals to search the database. I shall attempt to answer the three specific questions that you raise in your letter. However, as I am sure you appreciate, the 22 April deadline will prevent me from researching any of the issues.

(1) From a policy perspective, is our intellectual property system rooted in the proposition that the public should have free access to official government records?

Our intellectual property system--represented by the federal trademark, copyright and patent laws--is clearly not rooted in the proposition that the public should have free access to official government records. Rather, the governing principle appears to be that the public will be allowed access to government-provided search services only upon payment of a reasonable, cost-based fee. Thus, to take just one example, 17 U.S.C. §705, which directs the Register of Copyrights to "provide and keep in the Copyright Office records of all deposits...," also provides that "Upon request and payment of the fee specified by section 708, the Copyright Office shall make a search of its public records...." (Emphasis supplied.) Section 708 specifies, among the fees payable to the Register of Copyrights "for the making and reporting of a search as provided by section 705, and for any related services, $10 for each hour or fraction of an hour consumed."

There is, of course, the principle, embodied in 17 U.S.C. §105, that U.S. government records are not protected by copyright, with the result that they can be freely copied by anyone. Freedom to copy, however, does not mean free access in the form of free copies. To the best of my knowledge, the

Government Printing Office still charges a reasonable fee for copies of government documents even though the documents themselves are in the public domain. To be sure, there is an exception to this general rule in the practice of Members of Congress, and federal agencies, of distributing these documents to members of the public free of charge; but this exception is, I believe, administered on a discretionary basis in the public interest.

This analysis suggests that the real issue raised by the PTO proposal is whether the general principle of reasonable access charges should be applied to public access to computerized trademark records, or whether special circumstances exist dictating waiver of a reasonable, cost-based fee. Based on my present understanding of the PTO proposal, there are no such special circumstances in this particular context to warrant a departure from the norm of access at a reasonable price. In addition, there are two independent reasons for the price of access to be set at cost. (I have no basis for forming an opinion, however, on whether the quoted figure --$70-- accurately reflects reasonable cost.)

First, the users of this service will almost exclusively be business establishments, engaged in for-profit ventures, and with no special claim to subsidies drawn from the public purse, subsidies that could be better spent on needier individuals. (We are not dealing here with a need for access by school children, by political advocates, or by the poor.) Presumably these business users will be capitalized at a level that will at least support a $70 an hour fee for searching title to this most essential element of business goodwill. Indeed, the number of hours consumed by these businesses at the terminal will be a function of the number of trademarks they search; and it seems fairly evident that the number of trademarks searched will be a direct function of the size of the business.

Second, it is important that care be taken in setting the price of access to assure that it does not fall below cost. I am particularly concerned that to price below cost will drive out of business the small, private companies--I can think of two offhand--that now conduct trademark searches for commercial users at reasonable fees. Such a result would be intolerable, from the viewpoints both of fairness and efficiency. The fairness point should be clear. These firms invested in building up expertise, databanks and goodwill in performing trademark searches. For government to undercut their position now through subsidized access would be inequitable, to say the least.

The efficiency argument should also be clear. Although the government-run database may be the only "official" one, there is no reason to believe that, undisciplined by competition from the private sector, it will be a well-run database. The example of land title search practices is instructive here. Although land title searches were historically conducted, and can still be conducted, using the facilities and records of the county recorders' offices across the country, consumers have today turned, almost exclusively, to the more complete and efficiently run unofficial records and indices maintained in private title plants by abstract and title companies. Indeed, I am told that in some locales, the "unofficial" record is so much better maintained than the "official" record, that county recorders often turn to the unofficial records of title insurers to obtain the information needed to bring their own records up to date.

In short, to allow pricing of access to government records to fall below cost might very well drive private search firms out of business, thus depriving the government operation of the healthy discipline of competition, and depriving consumers of low-cost, effective searches.

(2) Are there statutory or legal impediments to limiting--through a user fee system--public access to trademark records?

As noted above, I have not been able to research this matter but, off the top of my head, I can think of no statutory or other legal impediments to permitting public access to trademark records through a user fee system.

(3) Are there constitutional problems that should be considered for trademarks? For patents?

Again, without the benefit of any independent research, I can think of no constitutional problems.

I hope that these observations have been helpful to your purposes.

Cordially yours,

Paul Goldstein
Professor of Law

UNIVERSITY OF WISCONSIN-MADISON

LAW SCHOOL
Madison, Wisconsin 53706

Representative Robert W. Kastenmeier
U.S. House of Representatives
Committee on the Judiciary
Washington, D.C. 20515

April 19, 1985

Re: Trademark database

Dear Representative Kastenmeier:

On April 4 you wrote asking my opinion as to the policy implications of a proposal by the Patent and Trademark Office to computerize the trademark records, and to charge a fee of $60/hr. for electronic access to that database. As I understand it the computerized database would constitute the only official source of information as to whether a trademark was federally registered.

Although there is much I would like to know about present patterns of access to trademark records, I am willing to venture some opinions even in the absence of more specific knowledge. On the one hand I believe that the fee for use of the database is different from the kinds of application and license fees often paid by those who seek the benefit of federal programs and services; as you imply in your letter some of the searches are made "defensively" by persons who wish to use a trademark secure in the knowledge that they are not violating the rights of a registrant. They are not themselves seeking the benefit of a federal program, but rather attempting to protect themselves from another who may have sought the protection of that program or statute. This suggests that those seeking such information perhaps should not have to pay.

On the other hand the new system, created at no doubt substantial cost, will probably tend to make better service available to most users, and at a cost that is less than what they would presently have to pay. I suspect that the vast majority of trademark searches are conducted by attorneys or trademark search companies. They charge their clients for the time they spend doing those searches, as well as the professional expertise they bring to bear on the interpretation of the information. I see no problem with charging a reasonable fee for those who make commercial use of the records, at least to the extent that the fees are intended merely to pay for the cost of improving a system that already meets minimum due process concerns.

I find an analogy helpful. As a citizen I have a right to inspect certain records on file in the Federal District Court. I should be entitled to inspect those records without paying a fee, although I might reasonably be asked to identify myself, for example. If, however, I wish to have copies made and sent to me in another city, I don't believe that I could complain if I was charged a reasonable fee for those copies and the expenses of mailing them to me. And to the extent that making the trademark records more widely available at a lower net cost to the vast majority of users is like charging for copies, then I have no objection to such a charge. But to stay with the analogy to the access to court records, I believe that I would find it objectionable to be required to pay for the privilege of access if I was willing to travel to the courthouse, and did not ask for copies.

Perhaps the analogy suggests a compromise from what seems to be the intitial proposal of the Patent and Trademark Office. Would it be reasonable to require that one or more public terminals be maintained at the Trademark Office, as well as at each Federal Records Center around the country, for the use of those who would affirm that they are not conducting the search on behalf of another? Federal depository libraries might be given the option of installing public terminals as well, for the benefit, again, of citizens or researchers.

I realize that I may have complicated matters by making a counter-suggestion, but I do so because I don't know enough about existing practices to endorse the "back-up" proposal you mention in your letter -- which seemed to grant to every citizen a right to free searches of up to 6 hours. I'm simply not sure I understand how such a system would be administered. To the extent that such rights would be assignable, or exerciseable by agents, I suspect that this would amount to a free system.

All of the preceding is based on my assumption that the vast majority of all searching is done by persons themselves engaged in the commerce of doing searches. My belief in the fairness of charging for most access also reflects a suspicion that most citizens are likely to need professional assistance in analyzing the implications of the information that they uncover and that free public access would not be widely utilized or terribly valuable.

This question does raise some interesting issues, and I wish that I had more time to make a response. You might be interested to know that one of the reasons I delayed answering more promptly is that I was working on a draft of an article on the Semiconductor Chip Protection Act -- another product of your Committee!

Yours truly,

John A. Kidwell

John A. Kidwell
Professor of Law

FRANKLIN PIERCE LAW CENTER

April 19, 1985

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

SUBJECT: Fees for Access to Patent and Trademark Office Records

Dear Mr. Kastenmeier:

In your letter of April 4, 1985 you asked the following questions:

"(1) From a policy perspective, is our intellectual property system rooted in the proposition that the public should have free access to official government records?

(2) Are there statutory or legal impediments to limiting -- through a user fee system -- public access to trademark records? In responding to this question, you may wish to consider the Trademark Counterfeiting Act (18 U.S.C. 2320, as added by Public Law 98-473), which requires 'international' trafficking and 'knowing' use of a counterfeited mark.

(3) Are there constitutional problems that should be considered for trademarks? For patents?"

My answers, which relate to both trademarks and patents, are as follows:

(1) As a matter of policy, I believe that the public should have free access to official government records including intellectual property records. As discussed in more detail below, the trademark and patent records are used so frequently by members of the public who are not trademark or patent owners, that I believe the government has an obligation, as a matter of policy, to make these records freely available for use by the public.

(2) I believe there are statutory or legal impediments to limiting public access to trademark or patent records through the user fee system. As discussed in more detail below, I believe the public is held to have constructive notice of registration of trademarks and issuance of patents, which places a burden on the public to make sure that they have searched the trademark or patent records before they adopt a trademark or make, use or sell a product. Also, the Trademark Counterfeiting Act of 1984 refers to marks registered on the principal register of the U.S. Patent and Trademark Office and requires "knowing" use of a counterfeit mark.

(3) In my opinion, there are constitutional problems to be considered for patents and probably for trademarks as well, as discussed below.

Question #1 - Policy Matters

Many people who are not familiar with the actual operation of the trademark and search rooms believe they are used solely for the benefit of patent and trademark owners. This is far from the truth.

The patent search room has been referred to as being "the greatest technical library in the world". It is not only used by professional searchers and patent lawyers, but it is also used by individual inventors and technical people, a number of whom I have known in my work in various corporations. Many kinds of searches are made in the patent search room, in addition to a novelty, or prior art, search to determine if an invention is patentable. These additional searches include:

a. Infringement search to determine if your new product or process infringes a patent owned by someone else.

b. Validity search to determine if a particular patent, such as one found in an infringement search, is valid.

c. State-of-the-art, or collection, search to learn about a particular field of technology. The object of this search is to learn about technology, and the fact that the technology is disclosed in patents makes no difference.

d. Justification search where an attempt is made to find an item disclosed in a patent more than seventeen years ago, so that it can be used without infringing a patent.

e. A variety of miscellaneous searches including:

   1. An assignment search to find patents assigned to a certain entity.

   2. An inventor search to find patents of which a particular individual is an inventor.

   3. I have searched a number of times on a pro bono basis, for museums in Massachusetts and New Hampshire to locate early patents, before the numbering system started in 1836;

      a.) of inventors
      b.) from locations
      c.) on early products

      The patent records of these dates are incomplete, unorganized and on poor quality microfilm.

Please note that all of these searches, except the prior art search, are not made for the benefit of an actual or potential patent owner, but are made by a non-patent owner to find patents or technology of others.

The USPTO, because their searches are always based on an invention on which someone is trying to get a patent, does not fully understand or appreciate that the most important and most costly searches are made by non-patent owners, the public, to find patents of others of which there is a public record classified by subject matter.

Please also note that, at present, these searches can only be made in the USPTO, as the numerical patent files in the depository libraries are not useful for searching.

A few more comments on state-of-the-art searches. These are used particularly by technical people who are not looking to see if something is patented, but are looking to see what is the state of technology in a particular field. Frequently when technical people start a new project, a search is made of the technical literature and, if the technical people are sophisticated enough, a search of the patent "literature" is also made. It has been found over the years that neither the technical or the patent literature provides complete information. Both are needed.

In a state-of-the-art search one goes to the particular subject - classified part of the patent collection and orders a number of copies out of a particular subclass, usually after looking at them first to make sure they are pertinent.

I think the records of the subject matter classified issued patents in the patent search room have not been used as much as they should by the public, in large part because they not been available anywhere except Washington for searches and many technical people are not aware of what is contained therein. I realize there are patent files in a number of depository libraries throughout the country but patent searches cannot really be conducted at those depository libraries as the patents are filed in numerical order.

Thus I think as a matter of policy it is very important to make the patent office search files readily available to as wide a sector of the public as possible. It certainly should not be limited to those who are in the patent profession.

I would hope that ultimately access to the subject-classified patents would be available throughout the country electronically. While I am very much in favor of automating the patent office search facility, I believe the government has an obligation to make the search facility readily available to the public. While no one complains about reasonable charges for copies of the patents, I believe the Patent and Trademark Office has an obligation to the public to provide both the patent search facility and a trademark search facility. Access to government records should be free.

Trademarks: While frequently products are manufactured on which there are no patents, in commercial society today nearly all products have trademarks thereon. Thus, while searches are made in the search facilities to see if your trademark is registerable over prior art trademarks, which is analogous to prior art patent searches, the same trademark search is used in an analogous manner to the patent infringement search to make sure the mark you are planning to use on your product does not infringe trademarks owned by others.

Frequently, trademark searches are made to locate all the marks owned by a particular owner which may be useful in acquisition investigations as well as to determine whether a particular owner has been able to acquire a "family" of marks.

Please note that some of these searches are not made for the benefit of an actual or potential trademark owner.

Conclusion: It should be understood that even when a search is made by a professional patent or trademark searcher they are not always representing large corporations but frequently representing individuals and small businesses. It may be that the individual or the small business is not able to travel to Washington or has not acquired the skill which is the mark of a professional trademark or patent searcher and thus, logically, retains an expert to make trademark or patent investigations.

For the above reasons I feel, as a matter of policy, that the U.S. should make its patent and trademark search facility as readily available to the public as possible and should not charge an access fee to inspect the government records.

Some might say that the patent records in the depository libraries are available for no access fees. These records are not really useful for searching purposes. The useful and valuable records are those which are classified in various ways so that searching may be done.

Question #2 - Statutory or Legal Impediments to Limiting Public Access to Trademark (and Patent) Records

Trademarks -

Counterfeiting: In the Trademark Counterfeiting Act of 1985 (98 Stat 2178) trademark counterfeiting was made a criminal act and specifically 18 U.S.C. 2320 provides "whoever intentionally traffics...in goods or services and knowingly uses a counterfeit mark on...such goods or services...shall...be fined...or imprisoned...". In 18 U.S.C. 2320 (b)(1)A.ii. a counterfeit mark is defined as "a spurious mark that is identical with, or substantially indistinguishable from, a mark registered...on the principal register of the United States Patent and Trademark Office...".

Thus, a person can be fined or imprisoned if he uses a spurious mark that is identical with a mark which is registered on the principal register of the USPTO. Obviously, for one to determine whether a mark is registered, the register should be freely available. To charge for access to the register when the potential defendant will be charged with knowingly using a mark on that register is unconscionable.

The same Act also amended the Lanham Act to provide that (15 U.S.C. 117 (b)) "In assessing damages under subsection (a), the court shall...enter judgement for three times such profits or damages..., in the case of any violation of 15 U.S.C. 1114 1(a) "...that consists of intentionally suing a mark...knowing such mark is a counterfeit mark..., in connection with the sale...of goods...".

In the Lanham Act, 15 U.S.C. 1116 (d) (1) (D) defines a "counterfeit mark" as "(i) a counterfeit of a mark that is registered on the principal register of the United States Patent and Trademark Office...".

Thus, if one intentionally uses a mark, knowing the mark is a counterfeit mark, which is defined as a counterfeit of a mark that is registered on the principal register of the USPTO, treble damages can be assessed.

In this case, the register should be freely available and no charge should be made for access if one must determine if a mark was registered on the USPTO in order to avoid treble damages.

Other Lanham Act Provisions: Section 22 of the Lanham Act (15 U.S.C. 1072) states that federal "Registration of a mark on the principal register provided by this chapter or under the Act of March 3, 1881, or the Act of February 20, 1905, shall be constructive notice of the registrants claim of ownership thereof". This eliminates the common-law defense of "good faith" use by a defendant[1] and, as stated by Professor J. Thomas McCarthy, "puts the burden of searching federal registration on every person who adopts a trademark".[2] McCarthy also states:[3]

> "One of the most important features of the 1946 Lanham Act was the provision for constructive notice. Every trademark registered on the Principal Register is constructive notice to all of the registrants' rights. Everyone has the burden of searching the Trademark Office registration prior to adoption of a mark."

Obviously if the registration of a trademark is contructive notice to the public, the public must have free access to such records.

The number of other provisions of the Lanham Act are pertinent:

15 U.S.C. 1057 (a) provides that "Certificates of registration of marks registered upon the principal register shall be issued in the name of the United States of America, ...and a record thereof shall be kept in the Patent and Trademark Office."

15 U.S.C. 1115 (a) provides "Any registration issued under the Act of March 3, 1881, or the Act of February 20, 1905, or of a mark registered on the principal register provided by this chapter...shall be prima facie evidence of registrant's exclusive right to use the registered mark in commerce...".

15. U.S.C. 1124 provides that "...no article of imported merchandise...which shall copy or simulate a trademark registered in accordance with the provisions of this Act...shall be admitted to entry in any custom house of the United States;".

1. Dawn Donut Co. V. Hart's Food Stores, Inc., 267 F 2d 358, (2nd Cir. NY 1959).
2. J. Thomas McCarthy, Trademarks and Unfair Competition, Vol. I, 1003, (1984).
3. Ibid., Vol. II, p. 143.

15 U.S.C. 1126 (a) provides that "The Commissioner shall keep a register of all marks communicated to him by the international bureaus...and upon the payment of... the fees herein prescribed may place the marks so communicated upon such register."

Thus, there are a number of provisions within the Lanham Act that provides for the Commissioner to keep a register of marks. These are official government records and should be available to the public with no fee for access.

It should also be noted that 35 U.S.C. 1 provided that "The Patent and Trademark Office...where records, books, drawings, specifications, and other papers and things pertaining to patents and to trademark registration should be kept and preserved,....".

Patents: As mentioned immediately above, 35 U.S.C. 1 provides that records, etc. pertaining to patents shall be kept and preserved in the Patent and Trademark Office.

35 U.S.C. 153 provides that "Patents...shall be recorded in the Patent and Trademark Office".

35 U.S.C. 271 (a) provides that "...whoever...makes, uses or sells any patented invention...infringes the patent.".

While there is no statutory provision that the issuance of a patent provides notice to the public, a leading reference book on patent law [4] states "All persons are chargeable with notice of the contents of all Letters Patent of the United States, because those Letters Patent are matters of public record.". Deller cites among other cases, the U.S. Supreme Court case of Wine Ry. Appliance Company versus Enterprise R. Equip. Company[5], wherein Justice McReynolds, speaking for the unanimous Court, stated "the parties agree that issuance of a patent and recordation in the Patent Office constitutes notice to the world of its existence. Boyden v. Burke, 55 U.S. 575, 582 (1852); Sessions v. Romadka, 145 U.S. 29, 50 (1892)".

Deller also states, in Section 523 found in Volume 7, "To constitute an infringement of a patent, it is not necessary that the infringer should have known of the existence of the patent at the time he infringed it." citing a number of cases.

In the Sontag case[6] the U.S. Supreme Court considered the question of constructive notice to the public upon the issuance of the patent. The Court stated "In the instant case the accused machine went into operation when the owner had no actual knowledge of the original patent;...all patents must 'be recorded, together with the specifications, in the Patent Office in books to be kept for that purpose' U.S.C. Title 35, Section 39. Constructive notice of their existence goes thus to all the world." (emphasis added). The Court cited the Boyden v. Burke case, the Wine Ry. case and Walker on Patents, Deller's edition (1937).

4. Deller's Walker on Patents, Vol. Four, Sec. 267, p. 184 (1965).
5. 297 U.S. 387 (1936).
6. Sontag Chain Stores Co. Ltd. v. National Nut Company of California, 310 U.S. 281.

35 U.S.C. 287 provides that if someone making or selling a patented article fails to mark the article with a patent notice, no damages shall be recovered by the patentee for any action for infringement. Damages will be recovered only after actual notice. However, Deller[7] states that "Failure to give notice or to mark an article as patented only affects the question of damages and not the right to an injunction.". Citing the Allied Metal case[8] which provides that in the absence of actual notice, "plaintiff may, nevertheless, be decreed injunctive relief...".

It should also be noticed that the Hanson case[9] states that "settled in the case law that the notice requirement of this statute does not apply where the patent is directed to a process or method.".

Thus, if the public is held to have constructive notice when a patent is issued and an infringer of that patent may be subject to an injunction, or if the patent relates to a process or method, to injunction and damages, it is submitted that the public record on issued patents, which the Commissioner of Patents and Trademarks is required to keep, should be given free access to the public.

Question #3 - Constitutional Question

Patents: As you know, the eighth power of Section 8 of Article I of the U.S. Constitution provides for patents and copyrights by promoting the "progress of science and useful arts,...". Congress has provided for this promotion by passing the patent law, as well as the copyright law. As pointed out above, the patent law provides for a record of issued patents to be kept. This record of issued patents is part of Congress's plan to promote the progress of science and useful arts.

It should be noted that this power number eight is unusual in that it is the only power which tells Congress how they must do a particular thing. If Congress decides to use their power to promote the progress of science and useful arts, they must do it "by securing for a limited time to authors and inventors the exclusive rights to their respective writings and discoveries.". Congress has decided to use this power and making a record of all the issued patents available to the public is, in my opinion, an important part of making the patent system operable and promoting the progress of science and useful arts. If the patent records are not freely available to the public this would not promote the progress of science and useful arts, but would be a hindrance.

I hope the above comments have been helpful to you and if you have any further questions, please do not hesitate to ask.

Best regards,

Homer O. Blair

Homer O. Blair
Professor of Law

HOB/cas
cc: Michael Remington, Chief Counsel

7. Deller's Walker on Patents, Vol. Four, Sec. 222, p. 59 (1965).
8. Allied Metal Stamping Co. v. Standard Electric Equip. Corp., 57 F.2d 296, 304 (D.C., N.Y. 1932).
9. Hanson V. Alpine Valley Ski Area, Inc., 718 F. 2d 1075 (CAFC 1983).

UNIVERSITY OF WASHINGTON
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April 24, 1985

Robert W. Kastenmeier, Chairman
Subcommittee on Courts, Civil Liberties &
the Administration of Justice
Committee on the Judiciary
United States House of Representatives
Washington, D.C. 20515

Dear Representative Kastenmeier:

Re: April 4, 1985 Letter on Automation of Trademark Files

Thank you for your letter of April 4, 1985 inquiring as to my opinion as to three questions that arise from the proposal of the Patent and Trademark Office to automate its trademark records and charge a fee for terminal access to the resulting data base. While I have not done extensive research on these questions, either in the past or in response to your inquiry, I will offer some perspectives.

> Question 1: "From a policy perspective, is our intellectual property system rooted in the proposition that the public should have free access to official government records?"

This question should be broken down into subissues: are different parts of the system (trademarks, copyrights, patents, etc.) distinguishable insofar as access is concerned? is the system rooted on access? is it rooted on free access?

It may not be sound to consider the access issue in relation to the "intellectual property system" as a whole as there may be significant differences between areas such as trademarks, copyrights and patents. For example, trademark rights, unlike patent protection, arise under the common law from adoption and use of a mark on goods. It has never been a premise of trademark law that a second user have actual or even constructive knowledge of the prior user's mark (though lack of knowledge will impact the remedy). Thus one may be a trademark infringer even though there was no opportunity to check any governmental records to determine if a particular mark is the subject of existing trademark rights. On the other hand, the theory behind patents is that no protection arises until the patent actually issues in the form of a printed publication. Thus no one can be held liable for patent infringement who did not, as least in theory, have the opportunity to check the patent records.

Despite this initial reservation about lumping all forms of intellectual property together, I do believe that it is or should be a premise of all the federal statutory forms of intellectual property that the nature and existence of such rights be determinable from official government records. It is less clear that such access must be free access however. The federal government presently provides a range of services and products for citizens for which a reasonable price is charged (e.g. publications from the printing office, photocopy charges for documents available through the Freedom of Information Act, etc.). The information that one can get through a computer data base is vastly different from and superior to that which can be obtained manually by a physical inspection of government records. It is becoming generally recognized in both law and economics that information is a valuable commodity, i.e. a scarce resource. Government should give it away without compensation only for reasons that comparably justify providing other types of tangible commodities and services without compensation--e.g. because of an explicit policy determination to subsidize some type of activity.

I am disturbed by the implications of making the computer system the only official source of information. It would seem to me that alternative official sources could be provided at relatively minor expense. For example, the computer system could be programmed to periodically print out in hardcopy form a listing of registered trademarks, filed applications, etc.--and that print-out could be made available at the P.T.O. and possibly at other places around the country. It would not be officially up to the minute--but would probably be as good a source as is currently available from non-computerized government records.

Question 2: Are there statutory or legal impediments to limiting--through a user fee system--public access to trademark records?

There are none that I know of. The PTO is obligated by statute to publish applications, registrations, etc. in the Official Gazette and presumably would continue to do so even after creation of the data base. The PTO is also directed by statute to maintain several "registers" of marks and records of assignments. But to my knowledge, the PTO is not obligated to provide such information in a particular format that is convenient to public access and searching. Furthermore, the Commissioner is expressly authorized by statute to charge fees for "services performed by and materials furnished by" the PTO. 15 U.S.C. 1113.

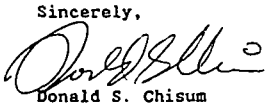
I do not see how the constructive notice provision of the Lanham Act, to which you refer, would be seriously compromised by the proposed fee system. The notice provision is truly "constructive"; it is intended to give national scope to the common law rights of the first user of a mark and to reduce the number of instances of lawful concurrent use by different persons in different parts of the country. As noted before, one may be a trademark infringer even though one had no actual or constructive notice of a prior user's mark.

I also do not see any problems with the special counterfeiting remedies for "knowing" use of another's mark. "Knowing" presumably means actual knowledge (e.g. as by deliberately copying another's mark).

Question 3: Are there constitutional problems that should be considered for trademarks? for patents?

Of course, constitutional problems should always be considered and resolved in connection with any government practice. I am no expert on constitutional principles of equal protection and due process. The courts have held that an indigent may not obtain a waiver of the statutory filing fees for a patent application. Boyden v. Commissioner, 441 F.2d 1041 (D.C. Cir. 1971). I would tend to think that obtaining access to government records on trademarks and patents is not one of those privileges that are so fundamental that it should be provided regardless of ability to pay (as has been held to be the case with divorces, etc.). Normally, a person will be interested in prior patents and trademarks only in connection with a commercial venture. On the other hand, as a matter of policy, I would favor a provision that anyone could obtain a limited number of hours of computer time by filing a verified statement of indigency. I doubt whether there would be many signers as most searchers are professionals or act on behalf of law firms and companies.

Sincerely,



Donald S. Chisum
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SUBCOMMITTEE ON TELECOMMUNICATIONS, CONSUMER PROTECTION, AND FINANCE

April 25, 1985

The Honorable David A. Stockman
Director
Office of Management and Budget
Executive Office Building
Washington, D.C. 20503

Re: Patent and Trademark Office

Dear Mr. Stockman:

The Patent and Trademark Office (PTO) plays a critical role in the U.S. innovation process which creates new products, new technologies and badly needed new jobs. As the ranking Republican on the authorizing subcommittee, I am committed to seeing to it that the PTO operates as efficiently as possible.

The users of PTO services now pay nearly $100 million per year, roughly half the operating budget. In 1982 the users paid $29 million. When the Subcommittee supported Administration legislation in 1982 which dramatically increased fees, we committed to those users a "first class PTO", and they are entitled to have it.

During the past three years, users have paid "excess" fees of $15.9 million which are now in the PTO appropriation account. According to law, the Commissioner of the PTO is entitled to spend collected fees to support authorized programs. However, OMB has decided that this $15.9 million in fees will be used in FY 1986 to offset appropriations. We are considering the budget levels for the PTO FY 1986-1989 cycle at this time, including that issue.

However, the PTO has now unexpectedly encountered a $5.8 million shortfall in FY 1985. This is largely due to the decision that the $3.1 million employee pay increase be absorbed. We believe it is not equitable for OMB to have decided that critical programs of the PTO should be cut back when user fees already collected are in hand to meet the shortfall. This constitutes breaking faith with our obligation to provide for an efficient office. They've paid and now the Office is cutting back on services. We are talking about the integrity of a patent, the

same patent that bears the seal of the United States of America. Today, 60% of those patents challenged are held by the courts to be invalid. This is just unacceptable for the greatest industrialized country in the world. The stimulation of an American inventive genius requires a patent system that offers our inventors prompt, secure and effective protection for their inventions.

Please have the appropriate member of your staff contact my Subcommittee counsel Tom Mooney (225-6504) to discuss these details further. This is an unusual situation with relatively small amounts of funding involved. But we consider this an important and urgent matter.

The House Judiciary Committee Subcommittee on which I rank meets next Thursday (May 2) to mark-up the authorization (for F.Y. 86-87-88) for PTO. If we cannot work this out with your office we will be forced to try and seek a supplemental. Your cooperation will be greatly appreciated.

Sincerely,

CARLOS J. MOORHEAD
Ranking Republican
Subcommittee on Courts, Civil Liberties and the Administration of Justice

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 14 1985

Honorable Carlos J. Moorhead
U.S. House of Representatives
Washington, DC 20515

Dear Carlos:

This is in response to your recent letter regarding the Patent and Trademark Office (PTO).

I share your views regarding the importance of the patent system and the need to provide adequate funding for a first-class Patent and Trademark Office. The Administration's concern over full funding for PTO, particularly the automation of the patent and trademark operations, is evidenced by our continued support of PTO's funding requests, including supplemental appropriations totalling $12.2 million over the past three fiscal years.

Despite the tremendous deficit problems that we all must face, the Administration's commitment to PTO's programs and user communities remains strong. I understand that the Acting Commissioner of Patents and Trademarks has adjusted spending plans in the current year to absorb the pay raise and other costs you mentioned in a way that will not disrupt PTO's progress toward achieving its most important goals. Additionally, while the $15.9 million fee surplus is proposed to offset that amount of taxpayer support for PTO's 1986 budget, total program funding will increase by more than $19 million or 8.4 percent over the 1985 level.

These actions will result in full program funding for the Patent and Trademark Office to carry out its primary purpose -- the stimulation of United States innovation through prompt, secure, and effective patent protection and trademark registration. I hope I can count on your continued support for the President's program, including the proposals for PTO.

Sincerely,

Dave

David A. Stockman
Director