UNITED STATES PATENT AND TRADEMARK FEE MODERNIZATION ACT OF 2003

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 1561

APRIL 3, 2003

Serial No. 12

Printed for the use of the Committee on the Judiciary

Available via the World Wide Web: http://www.house.gov/judiciary

U.S. GOVERNMENT PRINTING OFFICE

86–267 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON THE JUDICIARY

F. JAMES SENSENBRENNER, JR., Wisconsin, *Chairman*

HENRY J. HYDE, Illinois
HOWARD COBLE, North Carolina
LAMAR SMITH, Texas
ELTON GALLEGLY, California
BOB GOODLATTE, Virginia
STEVE CHABOT, Ohio
WILLIAM L. JENKINS, Tennessee
CHRIS CANNON, Utah
SPENCER BACHUS, Alabama
JOHN N. HOSTETTLER, Indiana
MARK GREEN, Wisconsin
RIC KELLER, Florida
MELISSA A. HART, Pennsylvania
JEFF FLAKE, Arizona
MIKE PENCE, Indiana
J. RANDY FORBES, Virginia
STEVE KING, Iowa
JOHN R. CARTER, Texas
TOM FEENEY, Florida
MARSHA BLACKBURN, Tennessee

JOHN CONYERS, JR., Michigan
HOWARD L. BERMAN, California
RICK BOUCHER, Virginia
JERROLD NADLER, New York
ROBERT C. SCOTT, Virginia
MELVIN L. WATT, North Carolina
ZOE LOFGREN, California
SHEILA JACKSON LEE, Texas
MAXINE WATERS, California
MARTIN T. MEEHAN, Massachusetts
WILLIAM D. DELAHUNT, Massachusetts
ROBERT WEXLER, Florida
TAMMY BALDWIN, Wisconsin
ANTHONY D. WEINER, New York
ADAM B. SCHIFF, California
LINDA T. SÁNCHEZ, California

PHILIP G. KIKO, *Chief of Staff-General Counsel*
PERRY H. APELBAUM, *Minority Chief Counsel*

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

LAMAR SMITH, Texas, *Chairman*

HENRY J. HYDE, Illinois
ELTON GALLEGLY, California
BOB GOODLATTE, Virginia
WILLIAM L. JENKINS, Tennessee
SPENCER BACHUS, Alabama
MARK GREEN, Wisconsin
RIC KELLER, Florida
MELISSA A. HART, Pennsylvania
MIKE PENCE, Indiana
J. RANDY FORBES, Virginia
JOHN R. CARTER, Texas

HOWARD L. BERMAN, California
JOHN CONYERS, JR., Michigan
RICK BOUCHER, Virginia
ZOE LOFGREN, California
MAXINE WATERS, California
MARTIN T. MEEHAN, Massachusetts
WILLIAM D. DELAHUNT, Massachusetts
ROBERT WEXLER, Florida
TAMMY BALDWIN, Wisconsin
ANTHONY D. WEINER, New York

BLAINE MERRITT, *Chief Counsel*
DEBRA ROSE, *Counsel*
DAVID WHITNEY, *Counsel*
MELISSA L. MCDONALD, *Full Committee Counsel*
ALEC FRENCH, *Minority Counsel*

CONTENTS

APRIL 3, 2003

OPENING STATEMENT

	Page
The Honorable Lamar Smith, a Representative in Congress From the State of Texas, and Chairman, Subcommittee on Courts, the Internet, and Intellectual Property	1
The Honorable Howard L. Berman, a Representative in Congress From the State of California, and Ranking Member, Subcommittee on Courts, the Internet, and Intellectual Property	3

WITNESSES

The Honorable James Rogan, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office	
Oral Testimony	6
Prepared Statement	7
Mr. Michael K. Kirk, Executive Director, American Intellectual Property Law Association [AIPLA]	
Oral Testimony	11
Prepared Statement	12
Mr. John K. Williamson, President, Intellectual Property Owners [IPO]	
Oral Testimony	27
Prepared Statement	28
Mr. Ronald J. Stern, President, Patent Office Professional Association [POPA]	
Oral Testimony	37
Prepared Statement	38

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

Prepared Statement of the Honorable Lamar Smith, a Representative in Congress From the State of Texas, and Chairman, Subcommittee on Courts, the Internet, and Intellectual Property	2
Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress From the State of Michigan, and Ranking Member, Committee on the Judiciary	4
Letter from Dr. H. C. Ingo Kober, President, European Patent Office	59

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Prepared Statement of the Honorable Darrell Issa, a Representative in Congress From the State of California	69
Prepared Statement of the International Trademark Association	69
Letter from Mark T. Banner, Chair, Section of Intellectual Property Law, American Bar Association	73
Prepared Statement of the Biotechnology Industry Organization	78
Response to questions submitted by Representative Howard L. Berman to Ronald J. Stern, President, Patent Office Professional Association (POPA)	82
Response to questions submitted by Representative Melissa Hart to John K. Williamson, President, International Property Owners Association (IPO)	86

Page

Response to questions submitted by Representative Howard L. Berman to Michael K. Kirk, Executive Director, American Intellectual Property Law Association (AIPLA) 89

Response to questions submitted by Representative Melissa Hart to Michael K. Kirk, Executive Director, American Intellectual Property Law Association (AIPLA) 92

Response to questions submitted by Representative Howard L. Berman to James E. Rogan, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office 95

UNITED STATES PATENT AND TRADEMARK FEE MODERNIZATION ACT OF 2003

THURSDAY, APRIL 3, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subommittee met, pursuant to notice, at 3:08 p.m., in Room 2141, Rayburn House Office Building, Hon. Lamar Smith, [Chairman of the Subommittee] presiding.

Mr. SMITH. The Subcommittee on Courts, the Internet, and Intellectual Property will come to order.

Good afternoon. We have a great hearing scheduled, and we will begin in just a second. I am going to recognize myself and the Ranking Member, Mr. Berman, for opening statements, and then I'll introduce the witnesses we have here today.

Patents have played a central role in our industrial and economic history since Thomas Jefferson served as the first Patent commissioner. In fact, one of my predecessors, Representative Benjamin Butterworth of Ohio, Chairman of the House Committee on Patents in 1891, offered this critique of intellectual property and its contributions to the growth and development of the United States.

He said, "Neither the most profound thinker, nor the wildest dreamer, could have anticipated such marvelous changes and improvements as have been wrought out under our patent system. If some members of the Constitutional Convention, endowed with the gift of prophecy, had arisen in his place and in plain speech disclosed what their children would behold at the close of the first century, as a result of the power conferred upon Congress in article I, section 8 of the Constitution, his associates would have felt an anxious concern in regard to his mental health."

This is what Chairman Butterworth said about the value of our patent system more than 100 years ago. What would he say today, surrounded as we are now by computers, high-definition television sets, cell phones and other patented inventions?

Well, the jury is in, and the verdict is unanimous. Patents are critical to the economic health of our nation and the welfare of our citizenry, and that is why we are here today, to evaluate a plan developed by Director Rogan that is intended to strengthen the operations of the U.S. Patent and Trademark Office.

Director Rogan developed his Five-Year Strategic Business Plan for the PTO in response to a congressional mandate. Last year, the Subommittee conducted an oversight hearing on the original plan,

which led to informal discussions between the Agency and the major user groups. The talks were productive, and we now have a revised strategic plan that incorporates many of the suggestions offered by those user groups.

The most conspicuous provision of the revised plan is a new fee schedule that would generate an additional $201 million in revenue. This represents an average fee hike of roughly 15 percent, which is not insignificant to those who write the corresponding checks. The fee schedule has been developed, in large part, based on funding shortfalls at the Agency that have resulted from revenue diversion.

Everyone in this room is aware of the ongoing appropriations practice of using a portion of PTO fee revenue to subsidize other programs unconnected to the Agency. Well, none of us like it, but progress has been made in the past two or 3 years in curtailing fee diversion. We all want an efficient and productive PTO that has the resources it needs to serve the inventors and trademark holders of the United States.

Besides the fee increase, we must also consider what the extra revenue buys. We know about outsourcing the search function at PTO, ramping up paperless operations at the Agency and overhauling the certification of employees. But the Subommittee needs to evaluate these, and the many other proposals that are part of the revised plan.

We have an excellent roster of witnesses today who are very knowledgeable about the PTO, both its strengths and its witnesses, and we look forward to their testimony momentarily.

I will now recognize the Ranking Member, Mr. Berman of California, for his opening statement.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE LAMAR SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

It is well-known that patents have played a central role in our industrial and economic history since Thomas Jefferson served as the first patent commissioner.

In fact, one of my predecessors, Representative Benjamin Butterworth of Ohio, Chairman of the House Committee on Patents in 1891, offered this critique of intellectual property and its contributions to the growth and development of the United States:

- [N]either the most profound thinker nor the wildest dreamer could have anticipated such marvelous changes and improvements as have been wrought out under our Patent System. . . . If some member of the [Constitutional Convention], endowed with the gift of prophesy, had arisen in his place, and in plain speech disclosed what their children would behold at the close of the first century as a result of the power conferred upon Congress in [Article 1, section 8 of the Constitution], . . . his associates would have felt an anxious concern in regard to his mental health.

This is what Chairman Butterworth said about the value of our patent system more than 100 years ago. What would he say today, surrounded as we are by computers, high-definition television sets, cell phones, and other patented inventions?

The jury is in and the verdict is unanimous: patents are critical to the economic health of our nation and the welfare of our citizenry. A corollary of this truth is that the system by which we approve patents is important. And that is why we are here today—to evaluate a plan developed by Director Rogan that is intended to strengthen the operations of the U.S. Patent and Trademark Office.

Director Rogan developed his five-year Strategic Business Plan for the PTO in response to a congressional mandate. Last year the Subcommittee conducted an oversight hearing on the original Plan, which led to informal discussions between the agency and the major user groups. The talks were productive and we now have a

revised Strategic Plan that incorporates many of the constructive suggestions offered by the user groups.

The most conspicuous provision of the revised Plan is a new fee schedule that would generate an additional $201 million in revenue. This represents an average fee hike of roughly 15%, which is not insignificant to those who write the corresponding checks.

The fee schedule has been developed in large part based on funding shortfalls at the agency that have resulted from revenue diversion. Everyone in this room is aware of the ongoing appropriations practice of using a portion of PTO fee revenue to subsidize other programs unconnected to the agency. None of us like it, but progress has been made in the past two or three years in curtailing fee diversion. We all want an efficient and productive PTO that has the resources it needs to serve the inventors and trademark holders of the United States.

The fee increase will be the focus of today's hearing, but we must also consider what the extra revenue buys. We know about out-sourcing the search function at PTO; ramping-up paperless operations at the agency; and overhauling the certification of employees. But the Subcommittee needs to evaluate these and the many other proposals that are part of the revised Plan in more detail.

We have an excellent roster of witnesses who are knowledgeable about PTO, its strengths and weaknesses. I look forward to their testimony today. I now recognize the Ranking member from California for his opening statement.

Mr. BERMAN. Well, thank you very much, Mr. Chairman.

I appreciate your calling this hearing, and I apologize if, for parts of the testimony, I have to leave because there's an amendment I'm interested in that's on the floor right now related to the supplemental. I want to welcome Director Rogan and our other distinguished witnesses.

Basically, going to the points I guess I would like to make. The PTO, as the Chairman said, plays a vital role in fostering innovation and generating substantive commercial activities, but we need some immediate changes. Currently, patent pendency is over 25 months. The office has a backlog of 400,000 applications waiting to be examined, with over 300,000 more expected to be filed this year.

My guess is that somewhere in that backlog of 400,000, there are life-enhancing, productivity-increasing job producing items, and technologies, and new drugs that we would be better having today than waiting for.

The PTO is, and has been, overwhelmed by its ever-increasing workload. As many of us know, firsthand, the Strategic Plan is comprised of roughly 400 pages, and enthusiastically details a proposal to implement sweeping changes in the way the PTO currently conducts its business.

The Director and others who have labored in creating this ambitious document really deserve, I think, our deepest commendations. One of the issues we have talked about for a long time was the absence of a Strategic Plan and the ability to go to others, particularly the appropriators, and say, "Here's where the PTO is headed. Here's where that vision of the office is."

They have provided us with this, and without that vision, it would be nearly impossible for this Subommittee to understand and support any provisions of the plan or changes to the fee schedule. But I am concerned about a couple of issues. One of them was raised by the Chairman.

First, I think before we consider the issue of a fee increase, it seems to me we've got to take a look at the issue of fee diversion and to understand where we all stand in terms of our commitment to end this practice. Without a willingness on all of us, Members

and interested parties in the PTO to put in a sincere effort to end the diversion of PTO funds, I don't see the logic of raising the fees.

I have in the past and I'm willing now to work for this goal, but I wouldn't expect my colleagues to champion a cause such as this without having the active participation and firm commitment of all of the influential industry groups that want us to deal with this backlog, that are willing to support a reasonable fee increase to increase the productivity, but don't prioritize the pro—stopping the diversion.

And let me tell you, I very much want to see greater discretionary funding. If you want to put in a freeze on the top tax bracket, I'm fine with it. If you want to increase the gas tax, I'm fine with it. Other ways to find appropriation revenues for the Federal Government to spend on the problems of the American people, I think it's very important, but the notion that we're going to take this almost foolish method, which is we're going to tax innovation through a substantial increase in fees in order that that can be diverted into more general funding appropriations is the dumbest way to do it, and I don't see why we should be part of that process.

So I think we have to address the issue of the diversion, and at least I'm not persuaded that the Administration, at its highest levels, is a partner in that effort, and I am not yet persuaded that the corporate world and the world of patent applicants is willing to prioritize this issue enough to make it possible for us to go beyond this Subommittee in terms of prohibiting the diversion. So I think we have to address the fact of that prohibition as we consider this plan.

There are a number of other issues involved in the Strategic Plan, which I want to ask questions about, but, again, I think it is bold and interesting. There are some issues involving increases in fees, but decreasing the time for patent examiners, and I want to figure out how that affects patent quality, the whole question of having someone else do searches, but when I am told that the examiner in the end is going to have to do pretty much a search anyway, and is that really a basis for saving time for the patent examiner I think deserves some probing. I guess there are some questions about how the fee increases are proposed, but the fundamental concern to me is that we address the issue of the diversion at the same time as we address the Strategic Plan because that is the logic for the fee increases; to make this a better, faster, higher-quality patent process, and with the diversions still allowed, we could do all of that and get nothing for it.

Mr. SMITH. Thank you, Mr. Berman.

Let me thank all of the Members for their presence here, and without objection, their opening statements will be made a part of the record.

[The prepared statement of Mr. Conyers follows:]

PREPARED STATEMENT OF THE HONORABLE JOHN CONYERS, JR. A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

It's nice to see our former Judiciary colleague Jim Rogan back here. The U.S. Patent & Trademark Office always has played a crucial role in America's economy. The last decade has seen an unprecedented boom in technology, due mainly to the invention of new technologies and patents granted on them by the PTO. The importance of patents to technological advancement is evidenced by the rapid increase in the

number of patent applications. As our economy grows and technology advances, our oversight over the PTO becomes even more important.

Past oversight indicated that we needed to streamline the PTO. We were able to accomplish that to a certain extent with the American Inventors Protection Act of 1999. Among other things, the bill restructured the agency to make it more efficient and effective at examining patents and registering trademarks. Unfortunately, the PTO still faces obstacles to becoming completely efficient.

As you all may be aware, the PTO takes no money from taxpayers; instead, it is fully funded by user fees and generates approximately $1 billion per year in revenues from those fees. This success has been an Achilles' heel—the Administration and appropriators take advantage of the revenues and treat the PTO as a cash cow, diverting hundreds of millions of dollars of fees every year for other government programs. That diversion is making it difficult for the PTO to hire or even retain qualified examiners.

But these are not just concerns about personnel and efficiency—there are real world issues. The lack of resources has caused the time period between the filing of a patent application and a final decision on it to grow from 19.5 months to 26 months in just a few years and is expected to be 38.6 months by 2006. At that rate, inventions will be obsolete by the time they're patented. Our technological advancement and our economy can only suffer if Congress and the Administration sit idly by while this happens.

Fortunately, former Subcommittee Chairman Coble, Ranking Member Berman, and I worked on several pieces of legislation to address these issues, hoping they would send a message that diversion is wrong and must be stopped. Unfortunately, the problem continues.

The PTO now has proposed a new plan to modernize itself. Among other things, the plan calls for an increase in filing fees and for the use of outside contractors to conduct patent searches. I have reservations about both of these proposals. First, it is troubling to me that we would raise fees for patent applicants at the same time that their money is being diverted to other, unrelated programs. By increasing fees without stopping diversion, we could be creating a bigger pool of money from the Administration and the appropriators could steal.

Second, I believe the use of outside contractors could raise many issues. Searching old patents and journals is one of the core functions of the PTO and its examiners, giving that job to outside companies would be like having the SEC hire someone else to review IPO's. Moreover, I would like to know what protections patent applicants would have for contractors that do bad searches—would applicants get extra time for their applications? Finally, there could be major conflicts of interest if a company that seeks patents gets hired as a contractor.

These are some of the questions I have and hope can be answered during this hearing.

Mr. SMITH. Our first witness is the Honorable Jim Rogan, under secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office. We all remember him as a colleague, and a valued one at that, who served on this Subommittee from 1997 to 2001.

Director Rogan has a distinguished career in public service. He was a prosecutor in the Los Angeles County District Attorney's Office and became California's youngest sitting State court judge in 1990, before his election to the California State Assembly in 1994. Judge Rogan earned a B.A. degree from the University of California at Berkeley, and his J.D. from UCLA School of Law, where he also served as a member of the law review.

Our next witness is Mike Kirk, who serves as the executive director of the American Intellectual Property Law Association. In 1993, Mr. Kirk served as the acting assistant secretary of Thomas and acting commissioner of Patents and Trademarks, and from 1994 to 1995, he served as the deputy assistant secretary of Commerce and deputy commissioner of Patents and Trademarks.

Mr. Kirk earned his bachelor's of science in electrical engineering at the Citadel, his juris doctorate from Georgetown Law Center, and his master's of public administration from Indiana University.

Our next witness is John K. Williamson, president of Intellectual Property Owners, and chief intellectual property counsel for PPG Industries. Prior to joining PPG, in 196, he had been the chief patent counsel for Westinghouse Electric Corporation and for Allegheny International. Mr. Williamson is an adjunct professor of law at Duquesne University. He received a B.S. in mechanical engineering and a juris doctorate from the University of Missouri.

Our last witness is Ronald J. Stern, president of the Patent Office Professional Association. Mr. Stern holds a bachelor's degree from the City College of New York and a law degree from George Washington University. He has worked as a primary examiner at PTO since 1964.

It is nice to have you all with us. We have written statements from you all, which will also be made a part of the record, and let me remind you, we would like to adhere to the 5-minute rule for testimony, and there will be ample times, I am sure, for questioning after that.

With that, Director Rogan, we will begin with you, and look forward to your testimony.

STATEMENT OF HONORABLE JAMES ROGAN, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE U.S. PATENT AND TRADEMARK OFFICE

Mr. ROGAN. Mr. Chairman, Ranking Member Berman, and Members of the Subommittee, thank you for the opportunity to testify today on the challenges facing the PTO.

It's a special privilege, Mr. Chairman, to appear before you in your new capacity as Chairman of the Subommittee. You have always shown a keen appreciation for the importance of intellectual property in our Nation's economy. I look forward to continuing working with you, and my good friend, the Ranking Member, and the other Members of this Committee on the many intellectual property issues that will come before this body during your chairmanship.

Mr. Chairman, as you indicated in your prepared remarks, last year, the Subommittee conducted two important hearings on the PTO. At those hearings, I detailed the impending crisis confronting the office due to our increasing large and complex workload. On both occasions, I testified that without fundamental changes to the way the PTO operates, the quality of patents and trademarks we issue likely will deteriorate, and the time it takes for applications to be reviewed will skyrocket.

I quoted a 1981 *U.S.News & Word Report* article on the PTO which said, "The U.S. patent process is so sluggish, outdated and undependable that it is contributing to the decline of innovation in America."

Mr. Chairman, what was the reason for this editorial pessimism over two decades ago? It was because back then the average tendency for a patent application was 22 months, and there was a backlog of 75,000 applications awaiting review. Over 20 years later, the bad news is that the quality and pendency problems facing our agency are exponentially greater and a threat to the health of America's intellectual property system.

Currently, the average pendency wait for an application is over 2 years, and in some critical technologies it can be three, four, five or more years, and it is expected to keep going up. Also, we get about 350,000 new applications each year, and they are added to a backlog that we have right now of almost a half-million pending applications.

As the charts before you show, if the status quo remains, the inventory of unexamined patent applications will speed light years beyond the mere 75,000 lamented in that 1981 article. It will explode to a backlog of over one million applications by 2008, more than double the current amount. Over 140,000 patents will not issue over the next 5 years, and average pendency, will jump to over 40 months. The patent system as we know it might well collapse as an effective tool for IP protection.

The good news is that we now have a 5-year strategic plan, supported by the Administration and scores of America's largest companies and intellectual property groups, that will help abate this crisis. The 21st Century Strategic Plan pursues three main objectives: making the application process simpler and faster, being more responsive to the needs of our customers and the demands of the global marketplace, and to be more productive.

Assuming the needed changes to our fee structure are passed by Congress, the plan will help enhance the quality of patent and trademark operations, control patent and trademark pendency, allow us to hire almost 3,000 new patent examiners, transition from paper to e-Government processing for trademarks by November of this year and deliver an operational e-Government processing system for patents by October 2004.

Our plan will ensure that quality permeates every action of the PTO by hiring the people who make the best patent and trademark examiners, certifying their knowledge and competencies throughout their careers and focusing on quality in all aspects of the examination process.

These initiatives will bolster confidence in the quality of U.S. patents and trademarks, which will help spur the economy and reduce litigation costs.

The consensus we have achieved on this historic plan is due to the hard work and dedication of groups, such as are before us today: the AIPLA, IPO, the ABA's Intellectual Property Law section, BIO, INTA and our Patent and Trademark Public Advisory Committees, just to name a few. I want to express my sincere appreciation for their partnerships and their support of the plan's 37 action initiatives.

Finally, Mr. Chairman, I commend and thank both you and Ranking Member Berman for introducing yesterday H.R. 1561. I firmly believe this legislation is a critical step forward in giving the PTO the tools needed to avert a catastrophe and to help us field a nimble, flexible PTO that can respond rapidly to changing market conditions.

[The prepared statement of Mr. Rogan follows:]

PREPARED STATEMENT OF JAMES E. ROGAN

Chairman Smith, Ranking Member Berman, and Members of the Subcommittee:

Thank you for this opportunity to testify today on the challenges facing the United States Patent and Trademark Office (USPTO). It is a special privilege, Mr.

Chairman, to appear before you this morning in your new capacity as Chairman of this Subcommittee. You have a keen appreciation of the importance of intellectual property protection to our nation's economy, and I look forward to working with you and my good friend, Ranking Member Berman, in the months ahead on the many intellectual property issues that will come before this body.

In April and July of last year, this Subcommittee conducted two important oversight hearings on the operations and funding of the USPTO. At both of those hearings, I detailed the impending crisis confronting the Office due to our increasingly large and complex workload. On both occasions I testified that without fundamental changes to the way the USPTO operates, the quality of the patents and trademarks we issue likely will deteriorate, and the time it takes for an application to be reviewed will skyrocket. Indeed, patent pendency rates in the United States now average over two years, and in some critical technologies pendency averages four years. Without significant changes to our method of processing applications, the pendency time for the average application will soon reach three to four years.

There is both good news and bad news to report since those hearings took place.

The bad news is that the quality and pendency crisis facing our agency has not gone away. In fact, these problems are a greater threat to the health of America's intellectual property system than ever. Moreover, the longer we wait to confront these issues, the more costly and time consuming it will be to overcome them.

All is not without hope, however.

The good news is that we have a plan—a revised, comprehensive five-year strategic plan—supported by the Administration, including the Office of Management and Budget, and constituency groups that will put us on a path to meeting these challenges in the months and years to come. The 21st Century Strategic Plan is targeted toward timeliness, e-Government, employee development and competitive sourcing—all with a central quality focus. Assuming the needed changes to our fee structure are passed by Congress, the Plan will boost productivity and substantially cut the size of our inventory. It will transform the USPTO into an information age, e-commerce based organization, which is the goal of President Bush's Management Agenda. Because intellectual property-based enterprises represent the largest single sector of the U.S. economy, the Plan will also promote economic growth.

The 21st Century Strategic Plan is built on the premise that American innovators need to obtain enforceable intellectual property rights here and abroad as seamlessly and cost-effectively as possible. It provides a roadmap for creating an agile organization worthy of the leadership role American intellectual property plays in the global economy.

Let me take a few moments to summarize the sequence of events that has led us to where we are today.

When I arrived at the USPTO sixteen months ago, I initiated an aggressive top-to-bottom review of the agency to identify new and possibly nontraditional ways to improve quality and reduce pendency. This review was in response to the expectations and demands of the President and Secretary of Commerce, Congress, the owners of intellectual property, the patent bar, and the public-at-large. All wanted us to boldly address the challenges of improving quality, reducing pendency, and implementing e-government.

Last year we started to design a new plan for how the USPTO should operate. That Plan—our 21st Century Strategic Plan—was unveiled last June and pursued three main objectives: (1) to make the application process simpler, faster, and more efficient; (2) to be more responsive to the needs of our customers and to the demands of the national and global marketplaces; and (3) to be more productive.

The original Plan was particularly bold and marked a fundamental departure from business as usual. Resistance to change being what it is, some of the Plan's provisions—particularly those concerning deferred examination, applicant-commissioned searches, mandatory Information Disclosure Statements, and changes in some of our fees—was criticized.

We spent much of last summer and fall listening to those who had suggestions for ways to improve the Plan. I am pleased to report that these discussions were fruitful. They helped us draft a revised Strategic Plan that (while more modest than its first incarnation) recognizes that the USPTO's current business model and fee structure fails to meet the realities of the 21st century. Today, the Plan's 37 action initiatives and fee changes are endorsed by the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO), the American Bar Association's Section of Intellectual Property Law, the Biotechnology Industry Organization (BIO), the International Trademark Association (INTA), our Patent Public Advisory Committee and our Trademark Public Advisory Committee.

In addition, nearly one hundred of America's largest companies and intellectual property groups have expressed their support.

The key features of our revised Strategic Plan, which we submitted to the House and Senate last month in conjunction with the President's 2004 budget request, will:

- Enhance the quality of patent and trademark examining operations through consolidation of quality assurance activities.
- Accelerate processing time by transitioning from paper to e-government processing for trademarks by November 2, 2003—in tandem with implementation of the Madrid Protocol.
- Deliver an operational system to process patent applications electronically by October 1, 2004, including electronic image capture of all incoming and outgoing paper documents.
- Control patent and trademark pendency and reduce time to first Office actions.
- Competitively source patent application classification and search functions, and concentrate Office expertise as much as possible on the core examination functions.
- Provide for the hiring of almost 3,000 new patent examiners over the next five years.
- Expand our bilateral and multilateral discussions to strengthen intellectual property rights globally and, through work sharing, reduce duplication of effort among offices.

Changes in the Plan made at the behest of the user community required us to jettison our earlier goal of reaching 18-month average pendency. This is because of the higher priority the revised Plan places on quality and patent e-government initiatives. Nonetheless, our goal will be to produce, on average, a "first office action" for non-provisional applications at the time of 18-month publication. In addition, we seek to have a patent search report for other patent applications issuing in the same time frame.

Let me highlight some of the proposed changes in the Plan that I think are of the greatest significance.

First, we originally called for a legislated deferral of examination of up to 18 months from the earliest filing date. The revised Plan provides an administrative alternative that will give applicants the option of abandoning their applications prior to search or examination and receive a partial fee refund. This alternative will still achieve many of the benefits of deferred examination.

Second, the original Strategic Plan required applicants to provide search reports obtained from commercial search organizations. Under the new Plan, the USPTO will contract the search from commercial search organizations or foreign offices, not the applicant.

Third, the punitive fees we originally proposed for excessive claims and pages of complex specifications have been replaced with a linear fee system to ensure that fees charged for excessive claims and pages of complex specifications are proportional to the increased processing costs.

Lastly, the originally proposed four-track examination system has been revised in favor of a multiple track of five filing options.

The revised Plan emphasizes our commitment to testing and evaluating the initiatives, most notably in the areas of outsourcing, quality enhancements and e-Government. All of the initiatives in the Plan will be subjected to thorough evaluation. The implementation plans accompanying each of the proposed initiatives contain specific milestones for initiating pilot projects and evaluating the data before deployment decisions are made.

Quality must permeate every action taken by every employee of the USPTO, and this Plan will assure quality by hiring the people who make the best patent and trademark examiners, certifying their knowledge and competencies throughout their careers, and focusing on quality in all aspects of the examination of patent and trademark applications. For example, quality will be engineered into our processing by ensuring proper training and certification of examiners and expanding the "second-pair-of-eyes" review in selected technology areas. We believe these initiatives will bolster confidence in the quality of U.S. patents and trademarks, thereby spurring our economy and reducing litigation costs.

Another critical element of quality enhancement is tied to competitively sourcing the search function so that we can concentrate examiners' expertise as much as possible on the sovereign, core government function of patentability decision-making. When examiners are provided with quality search results and do not need to per-

form a separate search, they will be able to concentrate their efforts on what they do best: the determination of patentability. Reducing examiners' prior art search responsibilities will also achieve greater examiner productivity.

The USPTO has relied upon the European Patent Office's (EPO) search examiners in The Hague to perform searches of applications filed under the Patent Cooperation Treaty. These searches, which cover virtually every technology including biotechnology and telecommunications, are one way of managing the massive workload problem we face. The results to date on more than 75,000 searches conducted by the EPO over the past four years have been positive and confirmed through extensive surveys of U.S. patent applicants who have consistently expressed the view that EPO searches are high quality in nature.

By outsourcing the search function, we can ensure that the patent examiners of tomorrow will be like the quality review examiners of yesterday in that they will begin with a more complete search and set of information as their starting point. To that end, we will be diligent in selecting and monitoring the contract or foreign searching authorities to ensure that patent searches provided by them are of the highest quality.

The consensus we have achieved is due to the hard work and dedication of groups such as the AIPLA, IPO, the ABA's Section of Intellectual Property Law, BIO, INTA, the Patent Public Advisory Committee and the Trademark Public Advisory Committee. I want to express my sincere appreciation for their partnerships.

It is important to note that our partners recently have expressed concerns that the new fee system will not guarantee that the USPTO have access to all of its user fees. The Administration shares these concerns. President Bush cut the level of "fee diversion" by nearly fifty percent from the FY 2003 Budget level in the Administration's FY 2004 budget request for our agency. Last month Commerce Secretary Don Evans addressed this topic while testifying before a subcommittee of the House Appropriations Committee. There he said "the Department is working to *eliminate* the practice of using USPTO revenues for unrelated federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued."

The concern over "fee diversion" has led some in the patent community now to recommend that our fee proposal be amended so that any new fee structure would sunset after a period of two or three years. This idea, never raised during discussions leading to our accord, is flawed and would cast grave doubt upon the desirability of the Administration supporting a revised fee bill containing such a provision.

As the Members of the Subcommittee know all too well, Congress has given the USPTO clear directives to develop and implement a five-year plan. Subjecting our fee structure to a sunset provision would result in an unacceptable level of uncertainty. It would cripple the USPTO from making any long-range planning or investments in infrastructure, training, or recruiting. For example, under a sunset provision, exigencies could force us to lay off the approximately 3,000 patent examiners we intend to hire over the next five years. At the very least, a sunset provision would frustrate our efforts to recruit qualified scientists and engineers for the patent examining corps.

A sunset provision would also cast a shadow of uncertainty on American businesses and inventors who, in return for a set fee structure, have an expectation that services will be improved with respect to pendency, quality, and e-government. This provision would decrease predictability and thereby raise costs and increase pendency.

Mr. Chairman, if we want to ensure a more vibrant, seamless, and cost-effective American intellectual property system, our 21st Century Strategic Plan offers a sensible and pragmatic means for achieving it. But this all hinges on passage of our revised fee structure. Without the ability to hire and train new examiners and also improve our infrastructure, our hands will be tied.

The consequences of failing to enact the fee bill and giving the USPTO access to those fees will mean quality and pendency will continue to significantly suffer. We will be unable to hire needed examiners, and over 140,000 patents will not issue over the next five years. The inventory of unexamined patent applications will skyrocket to a backlog of over one million applications by 2008—more than double the current amount—and pendency (as measured from the time of filing) will jump to over 40 months average in the next few years. This would represent the highest pendency rate in many decades.

Surely we all agree that this scenario is unacceptable. Therefore, I am asking this Subcommittee to give us the tools needed to avert this crisis—and to let us field a nimble, flexible USPTO that can respond rapidly to changing market conditions. Time is not on our side, and the ramifications for the future of innovation and our economy are great.

Mr. SMITH. Thank you, Director Rogan.

Mr. Kirk?

STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION [AIPLA]

Mr. KIRK. Thank you, Mr. Chairman, and Members of the Subommittee. I am pleased to have the opportunity to present the views of the AIPLA on H.R. 1561 and the 21st Century Strategic Plan.

The PTO is in a crisis. The Patent and Trademark systems have declined steadily over the last decade. Over $650 million in user fees have been diverted since 1992. Quality has suffered. It is taking longer to get patents, and only a fraction of patent applications are filed electronically and none are processed electronically.

AIPLA strongly endorsed the three principal goals of the original Strategic Plan: quality, timeliness and electronic filing and processing. The original plan contained several desirable innovations to enhance patent quality.

There were a number of proposals in the original plan, however, that we found objectionable:

One was for an 18-month statutory deferred examination system. Another would allow applicants to select private contractors to perform searches and to provide those searches directly to the PTO. We have worked diligently with Under Secretary Rogan and his colleagues to find acceptable alternatives. We commend the Under Secretary for the manner in which he has engaged with us to find consensus on the plan.

Last fall, Under Secretary Rogan shared with us an early draft of the summary that was published in February of this year. In view of those refinements, AIPLA endorsed the Strategic Plan.

On the critical issue of diversion, Secretary Evans testified last month for the first time that a very senior Administration official had ever testified, stating an intention to work toward the elimination of diversion. This is a first.

Given his commitment and the proposed lowering of the diversion by 40 percent over the level proposed last year, AIPLA believes that progress has been made on diversion an can support H.R. 1561, but only with, now, two important caveats. In our prepared statement before H.R. 1561 was introduced, we expressed concern about the effective date. This concern is obviated with the effective date provision in H.R. 1561.

Turning to our remaining concerns, first, any fee bill enacted, in our opinion, must have a sunset. Under the sunset provision we envision, the fees set in H.R. 1561 would revert to the current fee schedule after 3 years unless extended by Congress. This would give the Administration and the user community the opportunity to convince the congressional appropriators to reduce and/or eliminate diversion. If the appropriators do not continue on the path

started by the PTO and the Department of Commerce, we see no reason for the higher fees to continue.

AIPLA continues to believe that the PTO's Strategic Plan, following successful testing and pilot projects, represents the best approach to address the problems of quality, pendency and e-filing, given the constraints imposed on the PTO, of which we are all aware. Unless our belief is proven wrong, we will be among the first to ask Congress to continue the new fee schedule if progress is made in eliminating diversion. In the absence of progress in eliminating diversion, we believe the higher fees should end on September 30, 2006.

Secondly, H.R. 1561 would authorize the Director to set the fees for searching patent applications. This fee has historically been a component of the fee for filing of patent application, and Congress has always properly reserved for itself the right to set that fee. We see no reason to change this practice.

The PTO has dropped its proposal for a permanent statutory 18-month deferred examination system, replacing it with a flexible deferred examination system. Allowing the deferral period to be determined by how long it takes the PTO to reach an application is, in our view, not acceptable. This would create even greater uncertainty than the original 18-month deferred examination proposal.

AIPLA wants an average 18-month pendency for all patent applications at the earliest practicable time. Working toward this goal, the PTO should focus on providing a search sufficiently early to allow applicants to decide whether to proceed with examination before publication occurs at 18 months. This would inform the public whether a patent is being sought and would reveal the search results when a decision is made to proceed.

We recognize that, in the near term, applicants in the worst back-logged areas are not going to receive searches in time to make decisions about examination prior to 18-month publication. For these applicants, AIPLA is not opposed to their being asked whether they wish to proceed at a time closer to when examination would actually occur, with the understanding that the PTO will make every effort to complete searches so that they can be published with the request for examination at 18 months.

Failure to enact an appropriate fee bill to fund a sound Strategic Plan is not an option. We look forward to reviewing the detailed proposals in the revised plan published just yesterday and working with the PTO, should we find any areas of the plan that we believe could be further refined and improved.

We thank you, Mr. Chairman, for holding this hearing. We would be pleased to answer any questions you might have.

[The prepared statement of Mr. Kirk follows:]

PREPARED STATEMENT OF MICHAEL K. KIRK

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on the "United States Patent and Trademark Office Fee Modernization Act of 2003."

The AIPLA is a national bar association of some 14,000 members engaged in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copy-

right, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

BACKGROUND

AIPLA said last year that the United States Patent and Trademark Office (PTO) is in crisis. We believe it remains in crisis. The viability of our nation's patent and trademark systems has been steadily eroded over the last decade. The Executive Branch and the Congress have participated in diverting fee revenues from the PTO since 1992. To date, over $650,000,000 in patent and trademark fees paid by PTO users have been diverted from, rescinded, or made unavailable to the Office. Quality has suffered. Large and small companies are increasingly being subjected to litigation (or its threat) on the basis of questionable patents. Patent applicants are encountering longer delays in obtaining protection for valuable new technologies. Until the sharp decline in the filing of trademark applications, delays in obtaining trademark registrations were hampering the marketing efforts of large and small businesses, increasing uncertainty in the marketplace. And while over half of all trademark applications are now filed electronically, only a fraction of patent applications are filed electronically, and neither patent nor trademark applications are currently processed electronically through the Office.

At the Oversight Hearing which the Subcommittee held on April 11, 2002 on the "The U.S. Patent and Trademark Office: Operations and Fiscal Year 2003 Budget," AIPLA testified that achieving a strong and effective Patent and Trademark Office would require focusing on three critical objectives: quality, timeliness and improved electronic filing and processing capabilities. AIPLA expressed its support for the top-to-bottom review of the operations which Under Secretary Rogan had undertaken, as well as the strategic planning process that the Congress and the user community had been requesting for years. While we reiterated our strong opposition to any diversion of patent and trademark fees, we stated that we would support a reasonable statutory fee increase to implement a five-year plan that would achieve the goals that the PTO, Congress and we seek.

On June 3rd, the PTO released its original 21st Century Strategic Plan and fee legislation to implement it. AIPLA found a number of positive features in the Plan and fee bill. Central to the original Strategic Plan's approach for improving quality and reducing pendency of patents was a "Four-Tracks Patent Examination Process" which would base patent examination by PTO examiners on patent searches conducted by private firms and foreign patent offices. By using patent searches from these other sources, the PTO hoped to off-load search work from examiners, allowing them to concentrate on the core government function of examination. An 18-month deferred examination system was an integral feature of the Four Tracks system.

We stated then and we reiterate now: were AIPLA given a blank sheet of paper, we certainly would not have opted for the Four Tracks system. In the abstract, we believe that separating search and examination makes no sense. This requires two individuals to familiarize themselves with the details of the invention—one to search and the other to examine. That is not as efficient as having one person responsible for both search and examination. The one office with the most experience with separate search and examination, the European Patent Office, is abandoning this approach in favor of having one person perform both functions—the way the PTO currently does.

But AIPLA approaches the evaluation of the PTO's operational changes in the real-world context in which it has been proposed. Notwithstanding the fact that the United States patent examination system has been developed and perfected over a two-hundred-year period, we recognize that the PTO has to work in a system of constraints imposed by the Executive Branch and the Congress. While the PTO could continue to pursue a more traditional approach of asking for increased examiner resources to improve quality and reduce pendency, neither the Executive Branch nor the Congress are going to listen. Congressional appropriators have made it very clear that they demand a new approach, one that seeks other ways to tackle these problems. So we could argue for the old way and watch the system continue to deteriorate. Instead, we choose to work with the PTO to develop alternative ways to address the problems, ways that might gather the needed support. As we stated in our earlier testimony, we can either curse the darkness or light a candle. AIPLA chooses to light a candle.

AIPLA found that the original Strategic Plan contained several desirable innovations. We endorsed initiatives to:

- create a competitive compensation package for Supervisory Patent Examiners to attract and retain the best employees in these jobs,

- develop suitability tests for potential examiner candidates,
- establish "training art units" for new examiners in high volume hiring areas,
- develop a testing process to certify examiners for promotions, and
- expand to other patent areas the "second set of eyes" concept successfully used with business method patents.

All of these initiatives will enhance patent quality. We also endorsed charging claim fees that would ensure that applicants pay the actual costs of processing applications containing large numbers of claims.

At the same time, there were a number of features in the original Strategic Plan that we found objectionable. One of these was the notion of implementing permanent, statutory, deferred examination for a period of 18 months as included in the PTO's proposed Four-Tracks system and the accompanying fee bill. We believed then, and still believe now, that the benefits projected by the PTO for itself and patent applicants were outweighed by the resulting extended period of uncertainty during which the public would be left in the dark regarding whether a patent will issue or what its scope will be. We also opposed requiring an applicant to select a Certified Search Contractor to perform the initial prior art search and provide the results to the PTO. In our view, the PTO must remain responsible for ensuring the adequacy and scope of the search results returned by the contractor.

We found the proposal by the PTO to have applicants pay increased excess claim fees to fund the extra work such claims might entail to be punitive in nature and unrelated to the actual amount of extra work involved. Similarly, we found the surcharges the PTO proposed to levy on applications merely because they contain claims that were patentably indistinct from claims in other applications from the same applicant would severely penalize applicants who are not seeking to game the system.

During the months following the release of the original Strategic Plan and fee bill, AIPLA met with PTO officials to explain our concerns and to work with them to find acceptable alternatives. We would like to commend Under Secretary Rogan and his staff for the manner in which they engaged in the effort to achieve the quality, pendency, and e-filing goals in a manner that addressed our concerns.

On October 24, 2002, AIPLA joined with the Intellectual Property Owners Association (IPO), the International Trademark Association (INTA), and the Biotechnology Industry Organization (BIO) in a letter to OMB Director Mitchell E. Daniels, Jr. to express support for the efforts of the United States Patent and Trademark Office (PTO) to address the crisis situation facing the patent and trademark systems (a copy of that letter is attached). We stated that the 21st Century Strategic Plan developed by Under Secretary Rogan represented an innovative and ambitious program to enhance the quality of patents and trademark registrations, to reduce the unacceptably long and growing times it takes to obtain them, and to achieve efficient, reliable, and user-friendly electronic filing and processing of patent and trademark applications. While we listed our reservations about certain details of the Plan, we indicated our full support for the goals that the Plan seeks to achieve. We also indicated our willingness to support an increase in funding necessary to implement those portions of the Strategic Plan we endorsed, where their effectiveness was proven by appropriate testing and pilot projects. We emphasized, however, that our support was contingent on the Executive and Legislative Branches effectively addressing the issue of diversion and that we would strongly oppose any fee increase not accompanied by an appropriate solution to diversion.

On November 22, 2002, AIPLA joined with IPO and INTA in another letter to OMB Director Daniels to report that, in light of proposed refinements to the Plan then recently shared with us by Under Secretary Rogan, we whole-heartedly endorsed the Plan (a copy of that letter is also attached). The three organizations recognized that the PTO would need additional resources to implement its Plan and, in that regard, discussed patent and trademark fee increases with the PTO that, with projected workload increases, would generate $1.5 billion in FY 2004. We stated that, with proposed refinements to the Plan, including testing and evaluation before deployment where appropriate, we were fully prepared to support a statutory fee increase of this magnitude so that the PTO could promptly and fully implement the Plan. Again, we reiterated that our support was based upon the assumption that the Bush Administration would effectively address the issue of diversion, noting that our members would insist that we strongly oppose any proposed fee increase that does not include an appropriate solution to diversion.

REVISED STRATEGIC PLAN AND NEW FEE BILL

On February 4th of this year, the PTO published an Executive Summary of its revised Strategic Plan and a new fee bill to support it. The first question that must be addressed is whether the new fee bill should be supported given the size and nature of the proposed fees (which will raise $1.504 billion), the level of diversion recommended in the President's Budget ($100 million) and the assurances given by Executive Branch officials to work toward limiting and/or eliminating diversion. As previously noted, the amount of fee revenue that would be raised by the revised fee bill ($1.504 billion) is in line with what we and our sister organizations indicated would be acceptable in our November 22nd letter.

A Department of Commerce (DOC) press release on its FY 2004 budget contained the following language addressing the issue of diversion:

> The President has reduced the annual practice of "fee diversion," under which a portion of the United States Patent and Trademark Office's (USPTO) fees are not available to the agency in the year they are collected—by nearly 50% in the Administration's Fiscal Year (FY) 2004 Budget. This bold step is being taken as part of Secretary Evans' efforts to create the conditions for economic growth and continued technological leadership by working to eliminate the practice of using USPTO revenues for unrelated federal programs.

A PTO press release offered the following comments:

> "The President has reduced the annual practice of fee diversion by nearly 50 percent in the Administration's Fiscal Year 2004 Budget," noted Under Secretary James E. Rogan. "This bold step is being taken as part of Secretary Evans' efforts to create the conditions for economic growth and continued technological leadership by working to eliminate the practice of using USPTO revenues for unrelated federal programs."

On March 6th, in testimony on the Department of Commerce's FY 2004 budget before the Commerce, State, and Justice Subcommittee of the House Appropriations Committee, Commerce Secretary Don Evans stated:

> To support technology innovation and provide for intellectual property protection, the Department is working to eliminate the practice of using USPTO revenues for unrelated federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued.

Finally, on March 20th, in testimony on the Department of Commerce's FY 2004 budget before the Commerce, State, and Justice Subcommittee of the Senate Appropriations Committee, Secretary Evans stated:

> The Department is also working to eliminate the practice of using USPTO revenues for unrelated Federal programs so that a greater share of the applicants' fees are available to the agency in the year that they are collected.

While these statements are not as unequivocal as we would have hoped, and were made in the context of an FY 2004 budget that expressly provides for diversion, this is the first time since diversion began in the 1990's that DOC and PTO officials have publicly stated an intention to work toward its elimination. Accordingly, while the President's Budget does not recommend an end to diversion, and Executive Branch officials have not set any date for eliminating diversion, AIPLA nonetheless understands that some real progress has been made on the diversion front. PTO and DOC officials have obviously listened to the concerns expressed regarding diversion and have made an effort to respond. AIPLA therefore supports the enactment of a fee bill along the lines of the revised fee bill released on February 4th, but, based on the information available to us at this time, does so only with three important caveats.

1. Sunset Provision

First, any fee bill enacted must have a "sunset." AIPLA and other user groups have discussed various forms of sunset provisions in the past, but these were tied to the level of appropriations the PTO received relative to the amount of fee revenue the fee bill would generate. AIPLA now believes that the sunset provision need not be linked to the level of diversion. The sunset provision we now advocate would be a simple sunset provision that would automatically revert the revised fee schedule to the current fee schedule after three years unless extended by the Congress. This would give the PTO and the DOC three years to continue the effort they have initiated to reduce and/or eliminate the diversion of PTO fee revenues in the President's Budget. Equally important, this would give the PTO and the DOC three years to convince Congressional appropriators to reduce and/or eliminate diversion. In the

final analysis, the elimination of diversion is ultimately in the hands of the Congressional appropriators. If they choose not to continue on the path started by the PTO and the DOC, then there is absolutely no reason for the higher fee levels to continue.

AIPLA continues to believe that full implementation of the PTO's 21st Century Strategic Plan, following successful testing and pilot projects, represents the best approach yet proposed to address the problems of quality, pendency, and e-filing, given the constraints imposed on the PTO. And unless our belief is proven wrong, we will be among the first to ask Congress to continue the applicability of the new fee schedule beyond the original period of its effectiveness if effective progress is made in eliminating diversion. Should there be no progress in eliminating diversion in the next three fiscal years, then the higher fees would end on September 30, 2006, and applications filed after that date would be assessed fees at the rates set in the current fee schedule.

2. Effective Date

Second, AIPLA strongly believes that the revised fee bill should become effective October 1, 2003. With the enactment of H.J.RES. 2 funding the PTO for the remainder of FY 2003, it is all but certain that any increase in fee revenue collected in FY 2003 would serve no purpose other than to send additional user fee revenues into the general Treasury. We understand that, under H.J.RES. 2, the PTO received an appropriation for FY 2003 of only $1.182 billion. This is less than the PTO expects to collect in fee revenue in FY 2003 under the current fee schedule. We cannot support making a PTO fee increase effective prior to FY 2004 simply to send additional PTO user fee revenue to the general Treasury. On the other hand, the prompt passage of the revised fee bill with an October 1, 2003 effective date would inform the appropriators that increased fee revenues would be collected effective from the beginning of FY 2004 and would encourage them to increase the funding of the PTO for FY 2004.

3. Congress Should Set PTO Fees

Third, new subsection 41(d)(2) of the revised fee bill would give the Director of the PTO the discretionary authority to ". . . establish the fees charged . . . to recover . . . the estimated average cost to the Office of searching applications for patent. . . ." The proposed search fee has historically been a component of the fee for filing a patent application, and Congress has always properly reserved for itself the right to set that fee. While we do not object to the Director having the authority to ". . . establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials . . ." found in existing section 41(d) (moved to section 41(d)(2) in the revised fee bill), these fees do not include the fee for filing a patent application, which is set by statute (35 U.S.C. 41(a)). Accordingly, while we in no way intend any adverse reflection on the present, or any future, Director, we believe the authority for establishing this fee should remain with the Congress and not the Director.

In commenting on the original "Business Plan" of the PTO for FY 2003 in Congressional testimony in April, 2002, AIPLA made clear its view that all proposals for potentially significant fee increases should be brought to the authorizing Committees in the Congress where they could be subject to the normal hearing processes in which users have a voice. The lack of such authority should have no adverse effect on the ability of the PTO to function and implement the Plan. The PTO is only now starting to identify and pilot test the concept of "certified search contractors." As it gains experience, it will be able to determine whether the $500 search fee estimate is adequate, and it will have more than ample time to make a case to the Congress and the user community that an adjustment is needed.

DEFERRED EXAMINATION

AIPLA, IPO, and the IPL Section of the ABA all testified in opposition to the proposal in the June 3rd, 2002, version of the Strategic Plan to establish a permanent, 18-month, statutory, deferred examination system. The PTO listened to that chorus of opposition and has eliminated any permanent, statutory, 18-month, deferred examination system. The PTO has replaced it with a "flexible or administrative deferred examination system" which authorizes the PTO to remit some increment of fees to applicants who abandon their applications prior to examination. The new system would not require that search or examination be deferred. Under the revised fee bill, the PTO will charge a combined filing, search and examination fee of $1,000. The PTO plans to ask an applicant, a certain number of months before an application would be considered for the first time by an examiner, whether the ap-

plicant wants a search. If the answer is 'yes,' the PTO would obtain a search. If the answer is 'no,' the PTO would refund to the applicant a portion of the initial fee. For those applicants replying that they do want the search, the completed search would be sent to them. Then, at a time closer to the time when the application would be initially examined, the PTO would ask the applicant if he/she wants the examination to proceed. If 'yes,' the examination would proceed; if 'no,' there would be a more limited refund of the initial fee.

We understand the reasons for the PTO's wish to implement a flexible examination system. By offering applicants refunds before search and examination, the PTO hopes to avoid the expenditure of resources on applications which applicants are no longer interested in pursuing. Upon considering this flexible examination system, however, AIPLA concluded that it must be modified to include specific timelines regarding when the request for search and examination must be made. Allowing the deferral period to be determined by how long it takes the PTO to reach an application in a given technology area is not acceptable. Such a system would allow applicants to avoid making decisions on whether to proceed with their applications for far longer periods, and would create even greater uncertainty in the marketplace, than the initial 18-month deferred examination proposal. Moreover, it would be devoid of any meaningful incentives for the PTO to actually reduce the average pendency of applications.

AIPLA, IPO, and the IPL Section of the ABA all testified in favor of achieving an average 18-month pendency at the earliest practicable time. While continuing to support that goal, AIPLA indicated that it would accept, but only as an interim step on the road to achieving an average 18-month pendency, a system where at least a search was made and given to the applicant sufficiently early to allow the applicant to decide whether to proceed with examination before the publication of the application, search, and request for examination at 18 months. This would allow the public to know at the time of the 18-month publication whether an applicant intended to seek a patent, as well as the relevant search information pertaining to the possible patentability of the invention.

While the PTO works to achieve the interim goal of publishing the search results for all applications that applicants wish to pursue, it must be recognized that for some period of time applicants in the worst back-logged PTO examining groups are not going to receive searches in less than 30 months. In light of this reality, and only for so long as necessary due to the unavailability of searches prior to the 18-month publication, AIPLA would not oppose applicants being asked whether they wish to proceed to examination at a time after publication and closer to the time when the actual examination would occur (with a partial refund for those who decline). However, the PTO should develop a schedule for:

(1) phasing-out all "late" examination inquiries as soon as possible so that all searches and requests for examination are made in time to be published with the application at 18 months; and

(2) achieving an average 18-month pendency in every technology area.

AIPLA wishes to be very clear, however, that it accepts the proposed system with the understanding that it is only a temporary administrative "deferred examination" system that will function ultimately to provide searches and final disposition of all applications within the average 18-month pendency.

CONCLUSION

As we have observed several times during the last year, the PTO is in crisis. Failure to enact an appropriate fee bill to fund a sound Strategic Plan is not an option. On the basis of the new Executive Summary released on February 3rd, we believe that all of our major concerns have been addressed, and we fully endorse the revised Plan. However, just as we support the revised fee bill but have some suggestions for improving it, we look forward to reviewing the detailed proposals in the revised Plan and to working with the PTO should we find any areas of the Plan that we believe could be further refined and improved.

We thank you Mr. Chairman for holding this hearing, and would be pleased to answer any questions you might have.

ATTACHMENT

American Intellectual Property Law Association - AIPLA
Biotechnology Industry Organization - BIO
Intellectual Property Owners Association - IPO
International Trademark Association - INTA

October 24, 2002

The Honorable Mitchell E. Daniels, Jr.
Director, Office of Management and Budget
Dwight D. Eisenhower Executive Office Building, #252
17th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20503

Dear Director Daniels:

We are writing to express our support for the efforts of the United States Patent and Trademark Office (USPTO) to address the crisis situation facing the patent and trademark systems. The 21st Century Strategic Plan developed by Under Secretary Rogan represents an innovative and ambitious program to enhance the quality of patents and trademark registrations, to reduce the unacceptably long and growing times it takes to obtain them, and to achieve efficient, reliable, and user-friendly electronic filing and processing systems for patent and trademark applications. While we have reservations about certain aspects of the details of the Plan, we share fully the goals that the Plan seeks to achieve. We also are prepared to support an increase in funding sufficient to implement those portions of the Plan we embrace, provided those funds are used solely for that purpose.

The USPTO is in Crisis

Crisis is a strong word, but we believe that it aptly describes the situation at the USPTO. The reliability of patents and trademark registrations is increasingly being called into question. Not only do invalid patents and trademark registrations put at risk the investments of their owners who commercialize the protected products and services, but they also cast a cloud over the legitimate business activities of the competitors of such right holders.

The time it takes to obtain a patent, commonly referred to as "pendency," now averages over two years. It is projected to rise to an average of over three years, and to six years in some critical technologies, unless immediate, concerted action is taken. The issuance of a patent in four to six years results in an unacceptably long period of uncertainty for those desiring to avoid infringement. And in those technologies in which development is fast paced, it also significantly lessens or removes the incentives and protections of the patent system since the commercial life for such technologies often tends to be shorter.

The USPTO promised a "paperless office" in 1983. Twenty years have passed and, while the Office has made some strides in its trademark operation, the patent operation still receives, processes, and stores in paper the soon-to-exceed one million patent application files. The resources wasted in locating misplaced files and simply managing this "paper mountain" are desperately needed in the patent examining operation.

The 21st Century Strategic Plan

Under Secretary Rogan published the Strategic Plan on June 3rd following intensive internal reviews and consultations with various user groups. The Plan seeks to "(1) improve patent and trademark quality, (2) aggressively implement e-Government to handle the workload associated with the 21st Century economy, and (3) reduce patent and trademark pendency."

We cannot overemphasize the importance of achieving these goals to address the crisis facing the USPTO today. We strongly support these goals. We also support many of the initiatives proposed to achieve them.

Elements of the Strategic Plan We Support

In particular, we welcome the proposals to:

1) *Expand the "second set of eyes" review concept, successfully used with business method patent applications, to other technology areas, as well as to any substantive refusals to be issued against trademark applications;*
2) *Enhance the reviewable record by increasing the amount of information included in patent application files regarding applicant/examiner interviews;*
3) *Create a competitive compensation package for Supervisory Primary Examiners to attract and retain the best employees for these jobs;*
4) *Develop tests to determine the suitability of candidates for the position of examiner;*
5) *Establish "training art units" for new examiners in high volume hiring areas;*
6) *Develop a testing process to certify examiners for promotions;*
7) *Make greater use of Search Reports prepared under the Patent Cooperation Treaty and by other qualified patent offices;*
8) *Allow the USPTO to use qualified private "Certified Search Contractors" (those that meet criteria equivalent to those for an International Searching Authority under the Patent Cooperation Treaty) to assist the USPTO in carrying out prior art searches, with the understanding that the quality of their performance will be initially tested and carefully monitored;*
9) *Use fees reflecting actual costs to ensure that applicants who elect to file large numbers of claims and lengthy applications bear the reasonable cost of any additional work imposed on the USPTO;*

10) Expand patent application work product reviews, including work product reviews of primary examiners;
11) Process patent applications electronically by the end of fiscal year 2004;
12) Create an almost paperless trademark operation through use of the Trademark Information System and by various other means by the beginning of fiscal year 2004;
13) Eliminate the requirement for signatures on trademark documents submitted to the USPTO;
14) Establish an enterprise-wide training strategy for trademarks;
15) Continue development of the trademark Work-at-Home program;
16) Provide trademark applicants with an option for expedited service; and,
17) Use an updated, uniform database of acceptable identification of goods and services for assigning trademark examination priority.

Elements of the Strategic Plan That Need a Sharper Focus

Unity of Invention

The Long-Term Agenda of the Strategic Plan provides that the USPTO will continue to explore the treatment of applications containing multiple inventions in connection with WIPO's Standing Committee on Patents and within the framework of the Trilateral Offices. Any changes to restriction practice (limiting a patent application to a single inventive concept) are to be considered within the context of this international framework.

The current restriction practices of the Office, especially in certain groups, are generating unnecessary filings, work and complications for both the Office and for applicants. A change to a unity of invention standard such as that followed under the Patent Cooperation Treaty (PCT) would significantly improve and simplify the examination process. In addition, when multiple inventive concepts have been included in a single application, the Office should permit an applicant to elect to either pay additional fees or to file divisional applications to obtain examination of related inventions that are presented in a single application.

We believe that a unity of invention standard similar to that followed under the PCT, which requires a single inventive concept to be examined in its entirety, should be an integral part of the Strategic Plan and that it, like all of the other elements we address in this letter, should be reflected in any fee legislation the Administration proposes. However, we believe that the schedule in the Plan is too indefinite and that a more aggressive timeline should be established. In our view, the Office should immediately commence, on an urgent basis, a study of the necessary changes to the patent laws and rules of practice so that it can implement a PCT unity of invention standard before the end of the 108th Congress.

We are committed to working with the Office to develop the necessary changes to the patent laws and rules of practice to achieve this goal. We understand that such a

system will entail additional work for certain applications and that this will require modification of the statutory fee structure to ensure that the USPTO is able to recover its costs. As long as applicants have the option to pay additional fees to cover the additional costs of having additional inventions examined in a single application (rather than being forced to file a separate application for each inventive concept), we would support an increase being levied on such applications.

Proof of Concept

Many of the changes proposed in the USPTO's Strategic Plan are innovative, but untested. While expressing our support for these proposals, we hasten to emphasize that we believe that the USPTO should initially implement the consensus elements of the Strategic Plan through administrative action, minimizing substantive patent and trademark law changes until each proposal has been proved by suitable testing and pilot projects. A comprehensive program of such testing and pilot projects should begin as soon as possible and should target those areas of the USPTO that exhibit the problem which the change is designed to address. In addition, we believe that the USPTO should clearly state each of its major goals and establish key measurements and yearly milestones, to be used to determine the success it is making in achieving each of these goals. We believe that this approach will enable the user community and the USPTO to work harmoniously to achieve the best results.

Work-Sharing with Other Major Offices

The Strategic Plan calls for greater integration with foreign offices in the patent examination process. Some of the proposals suggest that foreign examinations from certain offices be given full or partial faith and credit -- meaning that the foreign examination result will heavily influence the U.S. examination result. As we note below, we do not believe such a practice is feasible at this time due to the significant differences that exist between the patent laws of the United States and other nations. However, we strongly support efforts to make use of as much of the search product of other offices as possible in a practical sense. We also strongly support development of agreements with other offices that will permit closer relationships and practices to be established, as well as continuing the effort to harmonize the world's patent laws.

Elements of the Strategic Plan We Oppose

We have appreciated the manner in which the USPTO has sought input and evaluation by the user community of its Strategic Plan during much of the developmental phase of the plan. While there are a number of proposals advanced in the Strategic Plan with which we do not agree, we are hopeful that many of these objectionable parts of the Plan will ultimately be eliminated or satisfactorily resolved during the continuing dialogue between the USPTO and the user community.

Many of these objectionable proposals appear to have as their common foundation a concept with which we agree: the USPTO should not seek to address the

crisis it faces solely through the addition of staff. Notwithstanding our agreement with this approach, however, we believe that the pursuit of this concept by the Office has resulted in a number of proposals that would have adverse consequences for American industry and entrepreneurs. In this respect, we again emphasize that the over-arching objective should be improving the quality of the patents and trademark registrations, and that every initiative should be carefully measured against this goal. Among the proposals which appear to have their genesis in this concept and with which we disagree are the following:

1) *Permit patent applicants to defer the commencement of the examination process for up to 18 months.* Proposed in the hope that some applicants will voluntarily drop out of the system and thereby eliminate work for the USPTO, such deferral will result in the publication of applications without any search report, thereby shifting the burden to the public of determining which applications will ultimately be issued as patents and what their scope will be. We do not believe this burden should be transferred to the public and, for that reason, oppose the 18-month deferred examination proposal of the USPTO;
2) *Measure patent pendency from the filing of the request for examination to the time of issue or abandonment.* Patent pendency has been measured from filing to issue or abandonment for at least the last forty years and is the true and best measure of the period that the public will be uncertain as to whether a patent will issue and what its scope will be;
3) *Require applicants to select a Certified Search Contractor to perform the initial prior art search and provide the results to the USPTO.* We believe that the USPTO must remain responsible for ensuring the adequacy and scope of the search results returned by the contractor;
4) *Require, for patent applications already filed, a search by applicants (or an applicant-sponsored search by Certified Search Contractor) together with a "claim-by-claim" analysis of the information contained in such a search (referred to as a "mandatory Information Disclosure Statement").* This proposal would shift to thousands of applicants the obligation to perform work for which they have already paid the USPTO and would significantly increase their exposure to inequitable conduct charges;
5) *Rely on the substantive examination results of foreign patent offices in the U.S. examination process (e.g., granting "near" full faith and credit to such substantive examination results).* As noted above, while we agree that the long term goal of the major patent examining offices should be "work sharing" using the results of their respective search and examination activities, the differences between the patent laws of the United States and those of other countries are too great to permit such reliance at this time;
6) *Impose a surcharge on the filing of continuation, continuation-in-part, and divisional applications, as well as on applications that contain claims that are patentably indistinct from claims in other applications.* We believe such surcharges would adversely impact applicants who are merely seeking to protect fully their inventions and would not fairly address the abusive

practices the USPTO seeks to prevent. Fees should generally be set to recover actual costs and should not be punitive and penalize legitimate practices;

7) *Provide an option for trademark applicants to procure a likelihood of confusion search from a Certified Search Contractor.* Such an option is not needed and will neither enhance quality nor reduce pendency or costs;
8) *Eliminate the provision that the Director may raise trademark fees only yearly, and only in response to fluctuations in the consumer price index;*
9) *Eliminate requirements in the Rules of Practice and the Trademark Manual of Examining Procedure related to the examination of specimens; and,*
10) *Provide the Director the ability to set response times to trademark office actions through regulation.*

Proposed Fee Bill and FY 2004 Budget Request for the USPTO

We are strongly opposed to the USPTO's proposed fee bill. The fees in that bill would conform to the $1.527 billion revenue target that supported the $1.365 billion spending plan for the USPTO that was recommended in the President's FY 2003 Budget. That proposal would raise $162 million more in revenue than necessary to support USPTO operations. This additional revenue was targeted to support the operations of other government agencies. Each association joining in this letter has repeatedly made clear its strong opposition to any diversion of the user fees collected by the USPTO to other, unrelated government programs.

At the same time, we emphasize that we are among the most ardent supporters of the USPTO and we want to be part of the solution of the crisis facing the Office. While we are not able to confirm that the USPTO needs as much as the $1.365 billion it is requesting for FY 2003, we are fully prepared to support a statutory fee increase necessary to implement those portions of the Strategic Plan, outlined above, whose cost effectiveness is demonstrated through appropriate testing. This support is contingent, however, on the Executive and Legislative Branches effectively addressing the issue of diversion. We will strongly oppose any fee increase to support the Strategic Plan which is not accompanied by an appropriate solution to diversion.

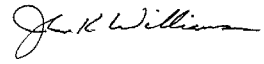
Accordingly, we urge that, in developing the budget request for the USPTO for FY 2004, account be taken of our willingness to support a fee increase needed to fund the initiatives we have outlined. We also ask that the USPTO be permitted to hire the number of examiners needed in the context of its Strategic Plan to process the workload it receives and not be forced to cut corners that adversely impact the quality of patents and trademark registrations. American industry, inventors, and businesses need an efficient and effective patent and trademark office that promptly grants and registers quality patents and trademarks.

Thank you for your consideration.

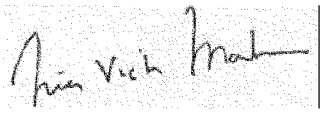
Sincerely,

Ronald E. Myrick
President
American Intellectual Property Law Association

Carl B. Feldbaum
President
Biotechnology Industry Organization



John K. Williamson
President
Intellectual Property Owners Association



Nils Victor Montan
President
International Trademark Association

American Intellectual Property Law Association - *AIPLA*
Intellectual Property Owners Association - IPO
International Trademark Association - INTA

November 22, 2002

The Honorable Mitchell E. Daniels, Jr.
Director, Office of Management and Budget
Dwight D. Eisenhower Executive Office Building, #252
17th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20503

Dear Director Daniels:

We wrote to you on October 24, 2002, to express our support for the efforts of the United States Patent and Trademark Office (USPTO) to address the crisis facing the patent and trademark systems. While then expressing reservations about certain aspects of the Strategic Plan developed by the USPTO, we emphasized that we fully shared the goals of the Plan. We are pleased that we can now report, in light of proposed refinements to the Plan recently shared with us by Under Secretary Rogan, that we whole-heartedly endorse the Plan.

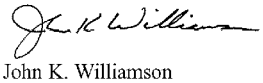
The USPTO will need additional resources to implement its Plan. In this regard, we have discussed patent and trademark fee increases with the USPTO that, with projected workload increases, would generate $1.5 billion in FY 2004. With the proposed refinements, including testing and evaluation before deployment where appropriate, we are fully prepared to support a statutory fee increase of this magnitude to implement the Plan. Our support is based upon the assumption that the Bush Administration will effectively address the issue of diversion. Our members will insist that we strongly oppose any proposed fee increase that does not include an appropriate solution to diversion.

We strongly desire to see the Plan implemented as soon as practicable to achieve the goals we share and pledge our commitment to work for the enactment of a fee increase for the USPTO as outlined above.

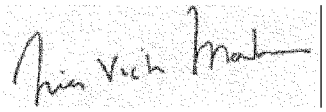
Thank you for your consideration.

Sincerely,

Ronald E. Myrick
President
American Intellectual Property Law Association



John K. Williamson
President
Intellectual Property Owners Association



Nils Victor Montan
President
International Trademark Association

Mr. SMITH. Thank you, Mr. Kirk.
Mr. Williamson?

STATEMENT OF JOHN K. WILLIAMSON, PRESIDENT, INTELLECTUAL PROPERTY OWNERS [IPO]

Mr. WILLIAMSON. Thank you, Mr. Chairman.

I appreciate this opportunity to appear before the Subommittee today. My testimony is on behalf of the Intellectual Property Owners Association, or IPO, which includes nearly 100 companies that own patents, trademarks, copyrights and trade secrets, and collectively employ over 5.5 million Americans.

I want to compliment Director Rogan and his colleagues for their huge effort to address the crisis that exists at the PTO. We were delighted to learn that Secretary Evans told the House Appropriations Subcommittee recently that the Department of Commerce is working to eliminate the practice of diverting PTO revenues to unrelated Government programs.

From our perspective, as patent owners and technology users, there are three main criteria for judging the performance of the PTO: patent quality, early clarification of rights and cost-effectiveness in PTO operations.

IPO members believe patent quality is deficient. We are being fettered by increasing numbers of invalid patents issued by the PTO for inventions that do not meet the statutory requirements for patentability. This places an enormous burden on the economy, in terms of direct costs, when these invalid patents are challenged and in lost opportunity costs when they are not.

With regard to pendency, delays in the PTO have reached unacceptable levels. A graph attached to my prepared statement shows pendency will soon be at the highest level in more than 20 years. And as Director Rogan just testified, the backlog of pending patent applications is approaching a half-a-million cases, an all-time, and unacceptable, high.

And in the third area of concern, cost-effectiveness, the PTO has had to forego critically needed investments in e-processing to focus on current workload. Considering all of these alarming symptoms, we must accept the prevailing view that the PTO is in a crisis.

Director Rogan and his PTO team have worked incessantly with the user community and other interested groups to find a solution to this crisis. The PTO has significantly revised its original 21st Century Strategic Plan to meet concerns expressed to the Subommittee last July by IPO and others.

IPO now strongly supports the revised plan, because we believe it will provide higher quality, earlier determination of rights and cost-effectiveness in PTO operations.

We do support the plan in its entirety, including the somewhat controversial initiative to outsource searching, provided there is appropriate initial testing and evaluation. While the separation of search and examination may introduce initial inefficiency, we believe there is the potential for greater off-setting benefits.

IPO also supports the patent and trademark fee increase proposed in the new fee bill, H.R. 1561, provided Congress appropriates an equivalent amount to the PTO for fiscal year 2004 and provided certain technical changes are made.

The magnitude of this fee increase is not insignificant, and it will have adverse financial implications for large and small patent applicants alike. We are persuaded, however, that the fee increase is necessary to implement the Strategic Plan.

IPO remains steadfast in its opposition to diversion of PTO fees to fund unrelated Government programs. Appendix 2 attached to my statement shows why.

Under current projections through 2004, more than $750 million will have been diverted from the PTO to unrelated Government programs. In our view, but for the diversion of these funds, the PTO already would be realizing the efficiencies associated with e-processing, and the user community would not be confronted with the present crisis in patent quality and pendency.

We realize the Nation is in a very difficult period, and Congress is facing increased demands on scarce resources for the war, homeland security and other critical needs. IPO members are willing to pay their share of this added burden in conventional direct taxes, but we don't believe any of these critical needs should be funded by what amounts to a hidden tax on innovation.

We can support legislation to increase PTO collections in 2004 fiscal year to $1.5 billion, as projected under the draft bill, but only if the money is used for the PTO. The Subommittee should ask the appropriators to equalize 2004 appropriations and fee collections before giving final approval to a bill.

We also favor amending the bill to include a 3-year sunset provision, a requirement for prompt publication of search reports and a requirement that any change in the new search fee must be made by Congress.

In closing, I want to reiterate IPO's support for the Strategic Plan and the fee legislation necessary to pay for implementation of the plan.

Thank you, and I will be pleased to answer any questions.

[The prepared statement of Mr. Williamson follows:]

PREPARED STATEMENT OF JOHN K. WILLIAMSON

INTRODUCTION

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before the Subcommittee today to discuss the U.S. Patent and Trademark Office's strategic plan and proposed patent and trademark fee legislation.

My testimony today is on behalf of Intellectual Property Owners Association (IPO). I am the current president of IPO and Chief Intellectual Property Counsel for PPG Industries Inc., an IPO member. IPO is a trade association that represents nearly 100 companies that own patents, trademark, copyrights and trade secrets. The members of our association file thousands of patent and trademark applications a year and pay more than $200 million a year to the PTO in patent and trademark fees.

IPO members currently employ more than 5.5 million people in the U.S. These jobs have been created in substantial part by investments in technology and new products that are protected by patent and trademark rights.

I would like to begin by complimenting Director Rogan and his colleagues in the PTO and the Department of Commerce for their enormous efforts to address the crisis that exists at the PTO. When we testified before this Subcommittee a year ago at the annual PTO oversight hearing, IPO and others expressed deep concerns about inadequate patent quality, backlogs of unexamined patent applications that were out of control, lack of progress in implementing electronic processing of patent applications, and diversion of patent and trademark fees to unrelated government programs.

During the past year Director Rogan has worked hard to develop and refine the "21st Century Strategic Plan" to improve office operations, and he has forcefully brought the PTO's problems to the attention of officials at the highest levels of the Department of Commerce and OMB. Secretary of Commerce Evans, Deputy Secretary Bodman and others have devoted more time to PTO issues than anyone in their positions within memory. We were delighted to hear of the statement by Secretary Evans before the House appropriations subcommittee on March 6, when he said, "To support technology innovation and provide for intellectual property protection, the Department is working to eliminate the practice of using USPTO revenues for unrelated federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued."

While we believe the PTO is indeed in a crisis, I want to emphasize that the PTO has a dedicated and competent staff of professional employees who have labored to maintain patent and trademark quality and timeliness in an environment they do not control. They have been faced with record increases in workload and inadequate resources.

IPO strongly supports the revised 21st Century Strategic Plan. We also support paying for the plan by raising patent and trademark fees to the level proposed in the draft legislation if Congress appropriates an amount to the PTO for fiscal year 2004 equal to projected fee collections, and provided certain technical changes are made.

OBJECTIVES FOR THE PTO

I would like to review IPO's perspective on PTO reform. When one evaluates the PTO, it seems to us that there are two outside stakeholders who are most significant. They are (1) the users or customers of the PTO, i.e., those seeking patents and trademark registrations, and (2) the public at large. Owners of intellectual property, such as our members, find themselves firmly placed in both camps. When we are in the patent-obtaining camp, we want a patent to issue that will withstand attack, i.e., that is valid and enforceable, and we want it to issue promptly from a cost-effective process. Considerations for trademark owners are similar.

When we are in the camp of the public at large, we also want the patents that do issue to be valid and enforceable and to issue promptly. We do not want to be impeded by invalid or unenforceable patents owned by others. We want patent rights to be established promptly so that we have more certainty about what technology is in the public domain. A substantial number of unexamined applications of unknown scope deters our technological development.

We are concerned about the patent process from cradle to grave—from conception of the invention to expiration of the patent more than 20 years later. The PTO is directly involved in only a short segment of this time period, but the PTO's actions affect the patent application and patent during almost the entire time period.

From our perspective, there are three key criteria critical to stakeholders in the patent process. It is helpful in discussing the 21st Century Strategic Plan and fee legislation to determine whether the various proposals for reform address the three criteria. The criteria are:

- Quality—Patents should not be granted for inventions that do not meet the statutory requirements for patentability;
- Speed—Rights should be clarified early; and
- Cost-effectiveness—Inefficiencies and duplication should be excised and operational excellence should prevail.

THE CRISIS IN PTO PATENT OPERATIONS

The crisis in patent quality and patent pendency times has been building for several years.

Patent quality is an elusive concept, but in the view of IPO members, high patent quality is even more important than short patent pendency. Patent "quality" in the context of PTO work is the degree of excellence achieved by the PTO in determining whether an invention described and claimed in a patent application meets the statutory requirements for patentability. The steps necessary to make this determination are: (1) analyzing the written description and claims, (2) finding and analyzing the prior art relevant to the invention that the applicant is seeking to patent, (3) applying the substantive criteria for granting a patent, and (4) creating a reviewable record of the patent examination.

IPO members believe patent quality is deficient. The number of lawsuits and threatened suits against U.S. manufacturers based on invalid patents is rising. One of the most important facets of quality is the thoroughness of searches conducted

to find the most relevant prior art. The PTO's searches frequently do not locate the most relevant prior art. The evidence is anecdotal, but many IPO members feel the patent searches conducted by the European Patent Office are generally better than those conducted by the PTO. The PTO's 2002 annual report states that quality was significantly improved in 2002, with the portion of patent applications reviewed that contained a defect reduced to 4.2 percent from 5.4 percent a year earlier. As we understand it, however, the PTO's quality review process does not necessarily uncover defective searches.

The pendency time of patent applications will soon rise to record levels if no action is taken. The PTO's recent 2004 budget request to Congress projects that if the strategic plan and supporting initiatives are not implemented the pendency time of patent applications in the PTO will rise to more than 45 months by fiscal year 2008. This 45-month pendency is in stark contrast with the long-time PTO goal of 18 months average pendency, a goal we have consistently supported. See APPENDIX 1 attached to this statement, showing actual and projected pendency over the 30 year period ending in 2008. While actual pendency usually has been above the 18-month goal, it rarely has been above 24 months. The PTO Official Gazette reports that in some of the electrical or electronics technologies patent applications do not even receive a first office action (only the initial step in the examination process) until more than 40 months after filing. The reported Office-wide average pendency figures take into account only applications issuing as patents or abandoned currently. When the long-delayed applications are issued or abandoned, the reported pendency will begin to soar.

Longer pendency times will result in automatic extensions of the life of a far larger number of patents than was envisioned when the patent term adjustment provisions of the American Inventors Protection Act were enacted by Congress in 1999. Every patent granted on an application that does not receive a first action in 14 months receives an automatic extension of the patent expiration date. Congress did not intend for a majority of patents to continue in force beyond the 20th year after filing.

It should be pointed out that the dire projections on pendency in the PTO budget are based on the assumption that filings will increase 5 to 7 percent a year We understand that filings have not increased so far this year, but even with no increase it appears to us that the PTO still lacks the resources needed to effectively address its backlog.

The third area of concern, cost-effectiveness, also demands resources. In the past the PTO has had to forego information technology expenditures to focus on current workload problems. Full e-processing of patent and trademark applications is a key to cost-effectiveness. The 21st Strategic Plan establishes acceptable targets for implementing e-processing, but adequate funding will be required.

21ST CENTURY STRATEGIC PLAN

In a statement filed with the Subcommittee last July, IPO and other groups expressed several reservations about the initial version of the strategic plan. In the months that followed we had numerous meetings with Director Rogan and his staff, who were very interested in receiving and understanding our comments. We are pleased to report that we support the plan as revised on February 3, 2003, and believe it holds great promise for ending the crisis in which the PTO finds itself. We believe the elements of the plan meet the criteria mentioned earlier: patent quality, early determination of rights, and cost effectiveness.

Among others, the following features of the plan are noteworthy:

1) Hiring more patent examiners;
2) Allowing the PTO to use qualified private "Certified Search Contractors" to assist in carrying out prior art searches, with the PTO and not the patent applicant the contacting party;
3) Making greater use of search reports prepared under the Patent Cooperation Treaty and by other qualified patent offices;
4) Expanding the "second set of eyes" review concept used with business method patent applications to other technology areas, as well as to any substantive refusals to be issued against trademark applications;
5) Enhancing the reviewable record by increasing the amount of information included in patent application files regarding applicant/examiner interviews;
6) Creating a competitive compensation package for Supervisory Primary Examiners to attract and retain the best employees for these jobs;

7) Developing tests to determine the suitability of candidates for the position of examiner;
8) Establishing "training art units" for new examiners in high volume hiring areas;
9) Developing a testing process to certify examiners for promotions;
10) Expanding patent application work product reviews, including work product reviews of primary examiners;
11) Processing patent applications electronically by the end of fiscal year 2004;
12) Creating an almost paperless trademark operation by the beginning of fiscal year 2004.

Patent searching and examining procedures in the plan represent major changes from existing practice. The plan for outsourcing patent searching in particular represents a revolutionary change in approach. Outsourcing will mean that different individuals will do the search and the examination, as opposed to the traditional process in which both functions are performed by the same person. Separation of search and examination introduces inherent inefficiency since two individuals must read and understand the patent specification, claims, and prior art. On the other hand, outsourcing could have benefits, for example, by enabling faster elimination of PTO backlogs and encouraging development of private search companies with high levels of expertise in specific technologies. We support the outsourcing initiative provided there is adequate testing and evaluation.

As provided in the revised plan, new procedures must be subject to timely and comprehensive testing and evaluation to determine their cost effectiveness and effect on patent quality. Where appropriate, pilot projects should be completed before Office-wide introduction of new procedures. We urge evaluation of input from members of the public as a part of the evaluation.

The strategic plan contains many features that we believe will improve patent quality, but we note that the plan does not propose any change to individual examiner productivity goals. Nearly every year IPO has recommended establishing performance goals to reward superior quality by examiners in addition to rewarding superior production. The existing system gives examiners incentives to concentrate more on production than on quality. It takes much less examiner effort to grant a patent than to deny a patent, so a system that gives top priority to quantity of production biases the PTO in favor of granting patents.

PATENT AND TRADEMARK FEE LEGISLATION

IPO Support for the Legislation

IPO supports the discussion draft of patent and trademark fee legislation circulated to the members of the Subcommittee, which is the Administration's proposal, if Congress appropriates an amount to the PTO for fiscal year 2004 equal to projected fee collections, and provided certain technical changes are made. The discussion draft raises patent fees by 15.5 percent for a patent owner who pays all of the fees for a basic application and the fees required to maintain the patent in force throughout its life. For applicants filing larger than normal numbers of claims and pages of specification, the increase could be in the area of perhaps 20 to 25 percent.

FEE	CURRENT	PROPOSED
Filing, Search and Examination*	$ 750	$1,000
Issue	$1,300	$1,400
Maintenance – 1st	$ 890	$ 900
Maintenance – 2nd	$2,050	$2,300
Maintenance – 3rd	$3,150	$3,800
Excess Independent Claims	$84 per claim in excess of 3	$200 per claim in excess of 3
Excess Total Claims	$18 per claim in excess of 20	$50 per claim in excess of 20
Excess Sheets of Spec and Drawing	None	$250 for each 50 sheets in excess of 100, except for sequence and program listings

*The current $750 fee payable on filing is designated as a filing fee. The proposed $1000 fee, also payable on filing, is designated $300 for filing, $500 for search, and $200 for examination. The portions for search and examination may be refunded.

This fee increase is not insignificant, and will have budget implications for large and small patent applicants alike. In some instances the fees may result in fewer patent applications being filed by a company. Others may offset higher patent fees by reducing R&D expenditures. It is important to understand that the proposed fee increase is an incremental adjustment above the annual cost of living adjustments already provided for in patent law.

We are persuaded, however, that a fee increase is in the best interest of our members and the public at large. It is necessary in order to implement the 21st Century Strategic Plan and provide higher patent quality, earlier determination of rights, and cost-effectiveness in PTO operations. Fees are substantially lower than in the bill proposed last year. Fees for excess patent claims and excess pages of specification are significant, but now rise at only a linear rate as the number of claims and pages increases, unlike in the earlier draft. We also agree with the effective date provision in the discussion draft circulated to the Subcommittee, which would make the fee legislation effective on October 1, 2003, or on the date of enactment, whichever is later.

The strategic plan indicates that after this increase fees will remain steady for the foreseeable future. A further fee restructuring could be needed to implement adoption of a "unity of invention" standard for determining the subject matter permitted in a single patent application, which the strategic plan indicates will be studied by the PTO during the 108th Congress and which IPO supports, but such a fee restructuring should not result in a net increase in fees.

Eliminating Fee Diversion

This Subcommittee is well aware that large sums of money have been diverted from the PTO to unrelated government programs since 1992. In our view, fee diversion is a major factor contributing to the crisis that now exists. By 2004, if the President's budget for the PTO is adopted, more than $750 million will have been diverted since 1992. If PTO fee collections had not fallen below estimates for the last three years, the cumulative diversion might be about $1 billion. See APPENDIX 2 attached to this statement. But for the diversion of these funds, we believe the PTO would already be realizing the efficiencies associated with e-processing, and the user community would not be faced with eroding patent quality and dire projections for increased patent pendency time.

We realize the nation is in a very difficult period and Congress is facing increased demands for scarce resource for the war, homeland security and other critical needs. IPO members are willing to pay their share in regular taxes, but patent and trademark fees should not be diverted for any purpose. PTO fee diversion is a tax on technological innovation and business investment. The nation must preserve its ability to develop new technology. An innovation tax clearly is not in the public interest.

The 2004 budget proposes a $1.4 billion operating budget for the PTO that is said to be adequate to implement the 21st Century Strategic Plan. The budget includes fee legislation that would raise PTO fee collections in 2004 up to $1.5 billion. The net effect is to divert another $100 million in patent and trademark fees to unrelated government programs.

We are grateful for Secretary Evans' support for eliminating fee diversion and for the fact that the amount proposed for diversion this year is lower than proposed last year. Nevertheless, we cannot embrace an increase in fees for the purpose of facilitating diversion of $100 million.

At the same time, we believe the fees proposed in the discussion draft are justifiable if that amount of money can be used effectively by the PTO to implement the strategic plan. The IPO position on the level of fees, therefore, is that we can support legislation to increase PTO collections in 2004 to $1.5 billion, but only if the money is to be used for the benefit of the PTO including implementation of the strategic plan. We suggest that this Subcommittee investigate the financial needs of the PTO and work with the Appropriators to equalize appropriations and fee income before deciding on the appropriate level of fees.

Sunset Provision in Fee Legislation

We recommend an amendment to the fee bill to provide that after three years the fees will revert to a level that would make fee collections equal to what they would have been without the legislation, unless Congress passes legislation to extend the higher fees. This "sunsetting" provision would give the Subcommittee an opportunity to review operations under the 5-year strategic plan in the third year. A sunset provision would give PTO managers a strong incentive to achieve measurable goals on schedule and might help deter diversion of funds that could cause the PTO to fall behind schedule and jeopardize the strategic plan. Moreover, a downward adjustment of fees could be made after the third year if electronic processing of patent and trademark applications improves productivity and reduces PTO operating costs. Any sunset provision should be written so that if Congress allowed the higher fees to expire, an across-the-board reduction would be made in the new fees, which includes innovations such as a charge for pages of specification and authority for refunds, rather than reverting back to the current fee structure.

Prompt Publication of Search Reports

Early determination of rights is an important attribute of the patent system for protecting the interests of the public at large. IPO opposed the proposal in the original strategic plan that would have permitted patent applicants to defer commencement of the examination process for 18 months after filing. The revised strategic plan omits that deferral but permits refunds of the search and examination fees as an incentive on patent applicants to cease prosecuting applications when circumstances change. Although we continue to strongly support completing examination of all applications within 18 months in order to determine rights at the earliest possible time and give the public legal certainty, we recognize that the PTO cannot achieve the 18 month complete examination goal for several years.

We recommend, however, that the discussion draft be amended to insure that the public will have the benefit of the search report by the 18th month after the effective filing date, in cases where the Office obtains a separate search report before examination. The PTO should send the search report to the applicant promptly and give the applicant an opportunity to decide whether to proceed with examination. If examination is requested, the PTO should publish the application, the search report, and the fact that examination has been requested, all by 18 months after the effective filing date.

Such a requirement in the statute will benefit the public and avoid having the PTO regress to a practice where even the search report is unavailable to the public years after the effective filing date. The requirement for publication of the search report at 18 months could take effect after a reasonable transition period.

Search Fee Set by Congress

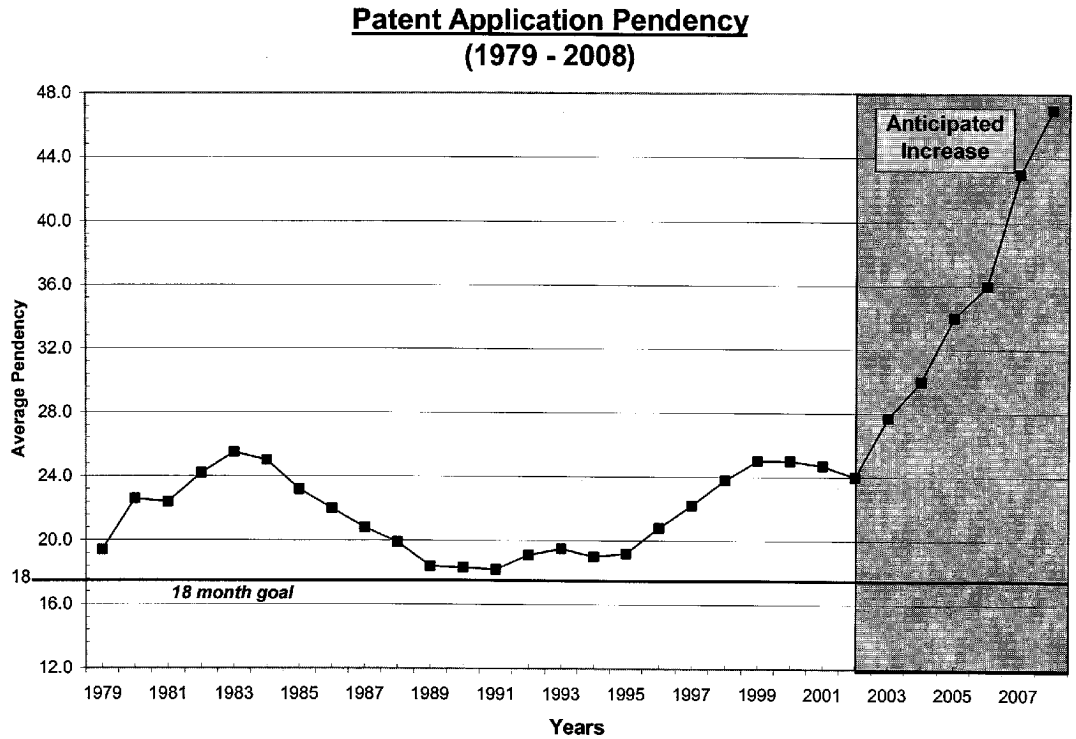
The discussion draft leaves authority with Congress to set all major patent fees except the new search fee. In the discussion draft, the PTO would set the level of the search fee if the search was outsourced. We urge that the search fee be set by Congress in the same manner as other patent fees.

After fee-setting was reviewed during hearings on the American Inventors Protection Act, Congress retained its fee-setting authority for the fees now in the statute. We believe this authority provides a desirable system of "checks and balances." We see no rationale for a different policy with respect to outsourced search fees. If outsourced searches turn out to cost more than the $500 average that is projected, the PTO could ask for Congressional review.

CONCLUSION

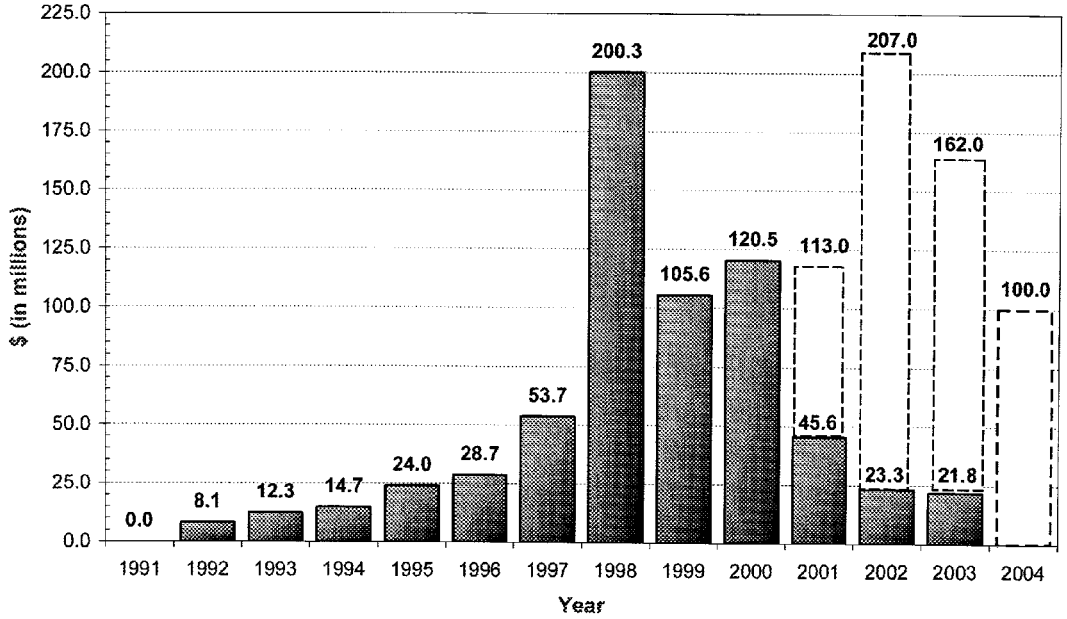
We reiterate our support for the revised strategic plan and fee legislation necessary to pay for implementation of the plan. We look forward to working with the Subcommittee to continue the search for a permanent solution to the fee diversions problem. I will be pleased to answer any questions.

Appendix 1



Source: USPTO

User Fees Diverted from the U.S. Patent and Trademark Office (USPTO) (1991 - 2004)



Sources: USPTO & OMB

Planned amounts of diversion from 2001 to 2004, as projected in the PTO's annual budget requests to Congress, are shown by the dotted lines. Due to lower than anticipated collections in 2001 and 2002, actual diversion was less than the planned amounts. The same is likely for 2003.

Mr. SMITH. Thank you, Mr. Williamson.
Mr. Stern?

STATEMENT OF RONALD J. STERN, PRESIDENT, PATENT OFFICE PROFESSIONAL ASSOCIATION [POPA]

Mr. STERN. Thank you, Mr. Chairman, and Mr. Berman, and the Members of the Subommittee.

POPA represents more than 3,900 employees, the vast majority of whom are patent examiners. Our members are firmly committed to maintaining the quality and integrity of the U.S. patent system. They strongly believe that our patent system will be seriously and irreversibly damaged by the Agency's new plan.

Fee diversion is a big issue, but there is not a single provision in the Agency's proposals that would put an end to it. Fee diversion is small right now. In fiscal year 2001, it was about $45 million. In fiscal year 2002, it was $23 million. This year, it's only expected to be $22 million. But the President's budget for next year sets diversion at approximately $100 million. That's going in the wrong direction. No one should think that this bill will discourage fee diversion.

The Agency's fee bill is not simply a proposal for raising fees, but instead includes language that will make sweeping changes in the examination process, separating search from examination and relying on outsource searches will result in a loss of quality, integrity and efficiency. Passage of the proposed legislation will be construed by the Agency as congressional approval for its radical revision of America's proven patent system.

Examiners have raised their collective voice in opposition. Over a thousand patent examiners have signed a petition requesting Congress to keep search and examination together.

Search and examination are integral parts of the same process. There is a synergy between the two functions that will be lost if they are separated. While searching, an examiner simultaneously becomes familiar with the state-of-the-art and begins mentally formulating rejections to apply to the claimed invention. Thus, when the examiner prepares to take an action in the case, much of the decision-making process has already been completed.

The European Patent Office has recognized the inherent efficiency and synergy in keeping search and examination together. After many years of using a separated process, the EPO has begun implementing their BEST program, an acronym for Bringing Examination and Search Together. The EPO plans to fully convert to a combined search and examination by 2005.

POPA has surveyed examiners on this issue. Ninety-five percent do not believe they will be able to issue valid patents and protect the public from unwarranted patents without doing the search themselves. Ninety-six percent believe that overall quality will go down if search and examination functions are separated.

A prestigious colleague once said, "massive claims require massive proof." Here, the Agency is seeking congressional approval before it conducts a pilot to verify whether outsourcing is capable of producing a high-quality product at a cost-effective price. We are convinced that the Agency's request for legislation before the successful conclusion of pilots is putting the cart before the horse.

Relying on foreign search reports will also result in tacitly transferring sovereign functions of the United States to foreign powers. A patentability determination can only be as good as the prior art on which it is founded. When a search is provided by a foreign patent office, then any decision based on that search has been determined by that foreign office.

The Agency's fee bill asks Congress for authority to provide a refund of search fees to "any applicant who provides a search report that meets the conditions prescribed by the Director." This language negates the near unanimous patent community opposition to allowing the applicant to control the search. This language needs to be eliminated.

Current law prohibits officers and employees of the USPTO from owning patents, except in very limited circumstances. This longstanding protection against conflicts of interest should be extended to include contractors who assist in search and examination functions. In order to avoid easy evasion of this prohibition by merely establishing a subsidiary, it is also important to prohibit parent corporations and sister subsidiaries from owning patents.

Imagine Microsoft's critical inventions being searched by a subsidiary of Sun Microsystems or IBM.

The Agency proposes fee increases for additional claims and large specifications that would raise approximately $100 million per year. In the past, excess claim fees paid in an application have not been used to provide additional examining time for that application. POPA would welcome a moderate fee increase in this regard if, and only if, the fees obtained were directly translated into additional time for examiners. Only then will applicants receive value for their extra payments.

Such an increase in funding, without any other increases, would pay for enough additional examining time to provide a substantial increase in the quality and reliability of patents. Give the examiners more time, and you will get better quality. Let me just repeat that as the closing item. Give the examiners more time, and you will get better quality.

[The prepared statement of Mr. Stern follows:]

PREPARED STATEMENT OF RONALD J. STERN

Mr. Chairman and Members of the Subcommittee:

POPA represents the more than 3,900 patent examiners and other patent professionals who form the backbone of the U.S. Patent and Trademark Office (USPTO). Patent examiners comprise the vast majority of our membership. The patent professionals of POPA are diligent, hard-working individuals firmly committed to maintaining the quality and integrity of the U.S. Patent System.

Today, however, the patent professionals of POPA believe that the very foundations of the U.S. Patent System are in danger of being so substantially and negatively altered by the USPTO 21st Century Strategic Plan, that the integrity of the patent system may be seriously and irreversibly damaged.

For the many reasons set forth below, **POPA opposes the proposed USPTO fee structure and proposed Agency reforms.**

THE NEW FEE LEGISLATION AND USPTO REFORM

The USPTO proposal for a fee modernization bill is not simply a proposal for raising fees but, instead, includes language that will make sweeping changes in the patent examination process that will significantly and adversely affect the U.S. Patent System. The essence of the change is the separation of the search from the remainder of the examination process. It is the USPTO's intent to rely on searches performed by either commercial providers or foreign patent offices. Approval of the pro-

posed USPTO fee legislation will be construed by the Agency as approval by Congress to implement its radical revision of America's proven patent examination system. These proposed changes are reflected in the form of separate fees for filing, searching and examination and by allowing the Director, by regulation, to reduce fees for applicants who provide an appropriate search report.

At the same time, there is not a single provision in the agency's proposals that would put an end to the continued diversion of USPTO fee income through the appropriations process. Any belief by some that passage of this bill will induce appropriators to reduce the amount of fee diversion is not based upon any written commitment or even the oral commitment of those responsible for appropriations.

Separation of Search and Examination

Separating the prior art search from patent examination will result in a loss of integrity and efficiency of the U.S. Patent System, reduce the quality of patent examination and, for some applications, is tantamount to surrendering the sovereign functions of the United States to foreign powers.

Examiners have raised their collective voice in opposition. Over 1,000 patent examiners have signed a petition requesting Congress to keep the search and examination together. A copy of this petition was submitted to the Subcommittee in July 2002. Examiners recognize that separating the search and examination would adversely impact the quality of patent examination and be a disservice to the American people.

Even Director Rogan has recognized that separating search and examination is an undesirable procedure. As he said in a town hall meeting with employees in September 2002, ". . . in a perfect world, we wouldn't be looking at undergoing such radical changes. . . ." He then went on to explain that the appropriations committees of Congress are demanding that the USPTO increase its efficiency of examination. He cited to and quoted a portion of the appropriation committee reports including the comment that "A substantial amount of funds have been expended on information technology projects over the last decade, but no significant increase in examiner productivity has been noted."

The agency has known throughout the decade of the Nineties, that the automation projects it was funding were not designed to save examiner time. Instead, the principal justification for these projects was to save the real estate and handling costs associated with paper prior art files. Any expectation by the appropriations committees of increased examiner productivity represents a failure by management to provide the appropriators with a correct understanding of either the nature of the examiner's work or the nature of the automation projects to be funded.

The prior art search and patent examination are integral parts of the same process. There is a synergy between the two functions that will be lost if search and examination are separated. As a patent examiner performs a prior art search on a patent application, the examiner is simultaneously becoming familiar with the state of the art in the subject matter of the application, identifying additional relevant search terms, modifying the search in response to preceding search results, and mentally formulating rejections to apply to the claimed invention. Thus, when the examiner prepares to take action on the case, much of the decision making process has already been completed.

Furthermore, as an examiner continues to search in a particular technology area, the examiner becomes more and more familiar with the prior art in that technology, increasing the quality of the examiner's search and examination. Many examiners gain such a level of expertise that they are regarded as experts in their technologies both within and outside the USPTO. The USPTO represents the single largest accumulation of technological expertise in the federal government. Where else can one find a body of engineers and scientists with the collective expertise to examine anything from safety pins to atom bombs? Examiners' expertise is continuously refreshed through the significant amount of time examiners spend searching the patent and non-patent literature in their assigned area of technology. This is the inherent efficiency of the combined search and examination process. The expertise of examiners will be diminished rather than enhanced by separating the search from examination. This will reduce the quality of patent examination.

The agency has not identified what the qualifications for a certified searcher will be. We do not, however, expect them to be fully qualified patent examiners. Patent examiners are specialists in a relatively narrow area of technology whereas commercial searchers will most likely be generalists due to the fact that there is only one USPTO but there will be multiple, competing search firms. It is expected that only the USPTO will have the volume of work to allow the current level of specialization. Secondly, only the USPTO has certain search resources such as a set of foreign patents prior to 1995 that have been classified according to the U.S. Patent Classifica-

tion system. Most importantly, examiners are knowledgeable in patent law and, thus, are trained to identify references that can be legitimately combined under the law. If, in fact, a commercial searcher has all of the above advantages, i.e., specialization, search resources and knowledge of patent law, then the searcher is, in effect, a patent examiner. At that point, it is more efficient to utilize the searcher as a full-fledged examiner. It should also be obvious that it is more efficient to have one examiner work on a case than to have two examiners work on the case.

The European Patent Office (EPO) has recognized this inherent efficiency. After many years of experience with a separated search and examination process, the EPO has begun implementing the "BEST" program—**B**ringing **E**xamination and **S**earch **T**ogether. The BEST program places the responsibility for the search and examination with the same examiner in the same manner as current USPTO practice. In discussing the procedure in which search and examination are separate, Dr. Michel Marandon, a Director at the EPO in Munich has stated that ". . . it cannot be denied that it is not the most economic way of working as both types of examiners have to study the application and the prior art documents. The substantive examiners also have to study the reports of the search examiners." Poignantly, in his statement before this Subcommittee last July, Charles P. Baker, Chair of the Section of Intellectual Property Law of the American Bar Association (ABA), indicated that the "best testament against separating the search function and an examination function is the fact the European Patent Office, which has had such a system for years, has recently decided to abandon it." POPA agrees with Dr. Marandon and Mr. Baker. Now, irrespective of the years of experience of the EPO culminating in the BEST program, the USPTO wants to take the opposite approach and separate the search from the examination.

In his statement before this Subcommittee last July, Michael K. Kirk, Executive Director of the American Intellectual Property Law Association (AIPLA), expressed the concerns of AIPLA that "the ultimate responsibility in each individual case must rest with the PTO examiner, to ensure that the search is complete in the first instance and to conduct supplemental searches as appropriate as the claims in the application are modified as the application advances through the examination process."

The USPTO, however, does not intend to maintain its present search capabilities. The Strategic Plan contemplates recouping significant overhead expenses by "putting the prior art search in the hands of private industry" and realizing "substantial savings in automation development and maintenance costs for EAST, WEST, ABSS, CDB access, etc.," in addition to substantial savings from reduced upkeep and maintenance of both the U.S. and International Patent Classification Systems. These various systems are the very search tools that examiners rely on for performing prior art searches. If these tools are no longer available, patent examiners will not be able to ensure that prior art searches are complete and of the highest quality. Even worse, the 21st Century Plan contemplates reducing the amount of time available to an examiner for each case by 20–25% as stated by Director Rogan before this Subcommittee last July. Without the time and tools to do the work, the Agency has effectively precluded examiners from doing the work.

Furthermore, as recognized by Mr. Kirk, searching is often done at multiple points during the prosecution of a patent application. When an applicant submits an amendment that changes the subject matter of the claims, examiners are expected to do an additional search that encompasses the revised claim subject matter. In addition, examiners are expected to bring searches up to date each time they issue an action after applicants have had an opportunity to amend the claims. The agency has not proposed any system for returning the application to the commercial search service or a foreign patent office at a time other than when the initial search is done. Consequently, stripping the examiner of all his/her search time will reduce the quality of patent examination by forcing decisions to be based solely on the original search.

How can patent examiners determine if a search is "complete" without conducting searches themselves? How will examiners know if a CSS "got it right" without conducting searches themselves? How will examiners "conduct supplemental searches as appropriate" when the very search tools they use today are no longer available or properly maintained? How can patent examiners be held ultimately responsible in each case, when they are not provided with the necessary tools to perform their duties? The plain truth is: they cannot and the USPTO knows it. On the other hand, if patent examiners are themselves conducting searches to verify the completeness of outsourced searches or carrying out supplemental searches, then where is the efficiency of outsourcing the search and where are the substantial savings to the Agency to justify the outsourcing? This is the inefficiency of the Agency's Strategic Plan. To ensure the integrity of the presumption of validity, patent examiners would be

necessarily duplicating the work of the prior art search performed by others. Clearly, the best method to produce an efficient and quality patent examination is to simply continue having patent examiners do the prior art search themselves.

USPTO Reliance on Private Sector and/or Foreign Patent Office Prior Art Searches Will Not Improve Quality of Examination

Examiners currently have the ability to utilize searches provided by applicants in the form of Information Disclosure Statements (IDS) and/or International Search Reports (ISR) provided by a foreign patent office. Examiners routinely review these documents when they are provided in a patent application. Indeed, if an examiner were to ignore relevant prior art in these documents, such an action could be construed by Agency management as an error against the examiner's performance rating. Experience has shown, however, that the prior art provided in these documents is seldom sufficient for examination purposes.

This fact has been publicly recognized at a discussion of the USPTO 21st Century Strategic Plan sponsored by the National Academy of Sciences last August. Charles Van Horn, a partner in the law firm of Finnegan, Henderson, Farabow, Garrett & Dunner and a former senior executive at the USPTO, explained that foreign searches won't meet the requirements for a U.S. examination. He said, dryly, that the USPTO will indeed need a better post-grant review process to weed out the increased number of bad patents if searches are outsourced.

POPA has recently surveyed its membership on the wisdom of separating search and examination, as well as the adequacy of prior art submissions from applicants and from foreign patent offices. The results of this survey are attached herewith as Appendix 2.

Ninety five percent (95%) of examiners do not believe they will be able to issue valid patents and protect the public from unwarranted patents without doing the search themselves. Ninety six percent (96%) believe that overall quality will go down if search and examination functions are separated.

When asked the following: "In new applications where an IDS (information disclosure statement) is filed, approximately how often do you need to apply additional references when making a rejection in the application," ninety one percent (91%) indicated that they need to apply additional art "almost all the time" (74%) or "most of the time" (17%). Only two percent (2%) said they "almost never" need to apply additional art.

Similarly, when asked the following: "In new applications containing foreign search reports, approximately how often do you need to apply additional references when making a rejection in the application," ninety two percent (92%) indicated that they need to apply additional art "almost all the time" (69%) or "most of the time" (23%). Only two percent (2%) said they "almost never" need to apply additional art. These last results clearly illustrate the fact that U.S. patent laws require analysis and application of prior art in patent applications in a significantly different manner than do foreign patent laws.

Examiners, those most familiar with the prior art and its application under U.S. patent laws, are convinced that separating search and examination functions and increasing reliance on private sector or foreign patent office searches will negatively impact the quality of patent examination in the USPTO.

The Search Is A Sovereign Function

Separating the search and examination will also result in tacitly transferring the sovereign functions of the United States to foreign powers. In his keynote address to the ABA, on June 27, 2002, Director Rogan indicated that the quasi-judicial determination of patentability is a sovereign function that he believed should never be contracted out. Director Rogan did not ascribe that same sovereignty to the prior art search. Contrary to Director Rogan's position, POPA believes that the search and examination both represent sovereign functions of the United States. If, as contemplated by the 21st Century Strategic Plan, examiners would have to rely on search results provided by a foreign patent office as the basis for patentability determination, the net effect is to delegate that patentability determination to the foreign patent office. The patentability determination can only be as good as the prior art on which that patentability determination is founded. If the search is provided by a foreign patent office, then any decision based on that search has ultimately been determined by that foreign patent office. Hence, the sovereign function of patentability determination has been indirectly delegated to a foreign power. POPA opposes such a delegation of sovereignty and opposes the proposed USPTO fee structure that would provide the Agency with the authority to make that delegation.

Conflict of Interest Issues

In the 21st Century Strategic Plan proposed last July, the agency included a provision by which the applicant would select and directly pay a commercial search provider. In recognition of the inherent conflict of interest created when an applicant controls the search provider, the USPTO conceded in its newly revised 21st Century Strategic Plan that "[B]ased upon the valuable and insightful feedback we have received from our constituency groups . . . USPTO will contract with private sector commercial organizations in lieu of the previously proposed requirement for applicant-commissioned search reports."

The proposed fee bill, however, continues to ask Congress for the authority to provide a refund of search fees to "any applicant who provides a search report that meets the conditions prescribed by the Director," thereby negating the near unanimous patent community opposition to allowing the applicant to control the search. This carefully crafted legislative language needs to be eliminated.

Under current law, officers and employees of the USPTO are prohibited from owning patents except in very limited circumstances. 35 U.S.C. § 4. This long-standing protection against a conflict of interest should be extended to include contractors who assist search and examination functions and any company or person having a direct or indirect financial stake in such contractors. In order to avoid easy evasion of the prohibition on the ownership of patents, it is important to extend this protection against conflicts of interest to all subsidiaries of a common parent corporation or common owner.

Can anyone imagine applications from the cutting edge research of a company such as Microsoft being searched by a subsidiary of Sun Microsystems or IBM?

Currently, senior examining personnel are required to file financial disclosure reports pursuant to law as enforced by the regulations of the Office of Government Ethics (OGE). Unless Congress explicitly provides for treating search contractors the same as government employees, they will not be required to disclose their financial interests. As a result, public confidence in the independence and objectivity of the search contractors will be compromised.

Fee Income Diversion

POPA continues to join its collective voice with all those who oppose the diversion of USPTO fee income to fund other unrelated non-USPTO appropriations. POPA believes that such fee diversions represent hidden and unfair taxes on America's inventors. If a governmental service or program is worthy of appropriation, it should be funded from appropriate taxes and general funds, not at the expense of inventors and innovators. POPA urges Congress to permit the USPTO the full use of its fee income in the year it is received.

POPA believes the new proposed fee structure is intended, at least in part, to provide additional revenues for the express purpose of funding non-USPTO activities. The President's FY 2004 budget proposal contemplates a diversion of close to $100 million which is substantially higher than the approximately $45 million in FY 01, the approximately $23 million in FY 02 and the expected $22 million diversion this fiscal year. It is not clear why some opponents of fee diversion are willing to accede to even greater diversion in the near term and the foreseeable future. Several more years of continued fee diversion at higher than current levels will create a dependence on patent fees for other government programs which will be politically impossible to eliminate.

Limitations on the number of application claims and pages

Although POPA opposes the new USPTO fee structure as presently written, some parts of the legislation merit further consideration. Of particular interest to examiners are the fees for additional claims and pages of the application above a threshold number. Examiners can attest to the huge increase in work required to examine patent applications as the number of claims increases. Generally, as the number of claims increases, so does the number of pages of the application. Further, the amount of patent and non-patent literature that must be reviewed also increases substantially. POPA is sympathetic to the Agency's desire to recoup the costs associated with the extra work required with larger applications and applications having extra claims. Similarly, there is extra work required when applicants submit large numbers of references for consideration by the examiner. The costs of the time spent by the examiner reviewing these references also need to be recouped.

POPA would welcome a moderate fee increase in this regard if, and only if, the fees obtained were directly translated into additional time for examiners handling the burden of these more complex patent applications. This has not been the case in the past. The existing USPTO fee structure already requires additional fees for more than three independent and more than 20 total claims. These fees were im-

posed because it was recognized that additional claims place an additional burden on the examiner by requiring additional work. In his testimony before this Subcommittee, Director Rogan admitted that complex cases with numerous claims require examiners to spend "inordinate" amounts of time examining such cases. POPA agrees with Director Rogan on this point. Unfortunately, examiners have not been given the additional time that applicants purchased with the payment of these fees. In those very rare instances where a supervisor may provide some time for an exceptional application, the time virtually never approaches the time the examiner actually spent.

In their respective statements to this Subcommittee last July, both the AIPLA and the ABA expressed support for establishing fees that represent the actual costs to the Agency to provide necessary examination services. When an application contains a significant number of additional claims, has large information disclosure statements (often disclosing a hundred or more prior art references), or requires additional considerations such as review of related cases for double patenting, it is the examiner who bears that burden. Yet the Agency does not use the additional fees from that complex application to provide additional time to that examiner. The examiner only has a very limited amount of time for each application and cannot be expected to provide the same quality examination to a complex application without additional time.

The excess claim and specification fees proposed by the agency would, by themselves, raise approximately $100 million per year. This increase in funding, without any other fee increases, would result in, if utilized to pay for additional examining time, the potential for substantial additional searching with its concomitant increase in the reliability of patent grants. Give the examiners more time and you will get better quality.

Unless examiners are guaranteed the additional time commensurate with the Agency fees for additional examination services, both existing and proposed fees for additional claims and other services represent nothing more than another hidden tax on inventors rather than a payment for examination services rendered.

THE AGENCY'S PROPOSED QUALITY INITIATIVES

The 21st Century Strategic Plan proposes several initiatives ostensibly for improving patent examination quality at the USPTO. These initiatives include such proposals as re-certification of primary examiners, requiring passage of the examiner-relevant portions of the Patent Bar Exam for promotion to GS–13, quadrupling the number of work product reviews for primary examiners, and expanding the "second pair of eyes" review. POPA believes these initiatives represent a burdensome imposition of managerial authority designed to increase control rather than enhance quality.

No amount of review and no amount of automation can ultimately improve patent examination without first providing examiners with the necessary time and resources to properly do the job. The current production quotas were put in place over twenty-five years ago and have become the largest single obstacle to quality patent examination. Since these quotas were put in place, the technological complexity of applications, the number of pages of description, the number of independent claims and the number of total claims in each application has increased substantially. In addition, there has been a veritable explosion of technology information. Furthermore, examiners have been required to provide more detailed explanations of the bases of their decisions. The old quotas no longer provide examiners with sufficient time to adequately search and examine current cases. Real increases in quality will require real increases in time per case.

Compounding the problems of production quotas is management's lack of support for adequate search tools to allow examiners to accurately and efficiently search the prior art. Management has, by neglect, effectively abandoned the U.S. Classification System. Fewer and fewer resources have been allocated for maintaining and updating the U.S. Classification System. Full time classifiers have been slowly phased out by attrition until finally, in 2002, management effectively abolished the job position and moved the remaining full time classifiers to hybrid classifier/examiner positions. U.S. classification of foreign patent documents ended in the mid-1990's, effectively removing this significant source of prior art from classified searches.

The automated patent databases have also been shortchanged. Management has repeatedly failed to allocate adequate resources to finish converting the patent image database to a fully text-searchable database. While patent images are available back to 1790, the text searchable database is only adequately usable back to 1971. Management recently made available an additional database using optical character recognition (OCR). The "dirty" OCR database is, however, of such poor

quality as to render it almost useless for text searching with the Agency's current search engine. These are examples of failed management practices that have resulted in decreased quality of patent examination over time.

The Strategic Plan quality initiatives are designed to reduce or eliminate the freedom and independent judgment of patent professionals. Patent examiners operate in a quasi-judicial capacity when making patentability determinations. The proposed quality initiatives would place the examiners under more stringent control of management and subject them to political pressures from both management and applicants. This is analogous to a federal judge being under executive branch management control when making judicial decisions. It is analogous to a medical doctor having to have a diagnosis and treatment regimen approved by an accountant. At the USPTO, many supervisors manage art areas in which they, themselves, have not been trained. Hence, patent examiners well trained in their technology, are reviewed by a generalist supervisor. Ultimately, the Strategic Plan initiatives will result in a further erosion of examination quality.

In almost all professional positions, the professional is tested once and then expected to remain current in his profession through continuous formal and on-the-job training. Attorneys do not retake the bar exam every year or two. Doctors do not sit for their board certifications every year. Repeated testing is not the accepted way of maintaining professional standards in the private sector and neither should it be at the USPTO. POPA has always been a strong proponent of adequate and continuing training in both technology and patent laws. The patent professionals of POPA are hard-working, dedicated public servants and deserve the honor and respect of USPTO management. Rather than unnecessarily increasing the number of managers reviewing one patent examiner, management should provide adequate opportunities for examiners to keep current with changes in patent laws and their respective technologies. Adequate time and training, more than anything else, will directly result in significant improvements in patent examination quality.

CONCLUSION

POPA opposes the proposed new USPTO fee structure and the 21st Century Strategic Plan as presently written. We would welcome the opportunity to work together with the Subcommittee and the USPTO to develop a Strategic Plan and fee structure that would be acceptable to all parties concerned and meet the objectives of improving patent quality and decreasing patent application pendency.

We thank you, Mr. Chairman for this opportunity to present the views of POPA.

ATTACHMENT

Best
and the
latest trends in Automation in the EPO

by Dr. Michel Marandon, Director BEST-DG2

(This paper does not necessarily represent the official position of the European Patent Office on the matters addressed.)

1. Introduction

The European Patent Convention provides for the grant of a patent in essentially two steps: the search and the examination (cf. Article 15 sqq. EPC). Under the present arrangements, the search is carried out by the search examiners of DG1 (The Hague/Berlin) and the examination by the substantive examiners of DG2 (Munich). These examiners have an academic degree or a comparable background.

This split procedure has historical reasons and results from a compromise aimed at integrating search examiners from the previous Institut International des Brevets and at giving the seat of the EPO to Germany. Although it has proven to work satisfactorily, it can not be denied that it is not the most economic way of working as both types of examiners have to study the application and the prior art documents. The substantive examiners also have to study the reports of the search examiners.

The office management has for some time been thinking about ways of improving the effectiveness of the examination procedure without decreasing the quality of the products. The reflections lead to the start of a pilot project with the purpose of Bringing Examination and Search Together (BEST).

In this procedure, because of the requirements of the EPC, the examination process is still carried out by the same examiner in two phases with the end product of the first phase being a search report.

The pilot project, called BEST, was launched in February 1989 with the appointment of a Project Leader for BEST in DG1, and the creation of a Steering Committee.

As BEST in DG1 can only be maintained if DG2 also works under BEST conditions, it was decided to start BEST in DG2 in 1992.

In 1993, the project has been recognized by the Administrative Council of the EPO as one of the most important strategic moves of the Office and go-ahead was given.

2. The BEST project.

2.1 Principles underlying BEST

One of the most essential principles underlying BEST is the basic responsibility of both DG1 and DG2. DG1 is responsible for search work and DG2 for examination work within the Office. This means that each DG in its field of competence is responsible for the Guidelines and Instructions, training, harmonisation and control of quality. In this way it can be insured that the quality of search or examination will be comparable regardless of where within the Office the search or examination has been carried out.

In order to create an environment that allows for as much harmonisation as possible between DG1 and DG2 the following extra measures have been taken:

a) Both project leaders have search and substantive examination experience in DG1 and DG2 respectively.

b) With respect to BEST-DG1 it is pointed out that training is entirely under the responsibility of DG2 and is carried out by examiners with substantial experience in substantive examination. Similarly, the training of BEST-DG2 is under the responsibility of DG1 and is monitored by highly experienced search examiners.

c) The Directorates for Harmonisation and Quality Control in DG1 and DG2 look very carefully at the work carried out in the other DG.

d) The examiners participating in BEST attend training weeks in the other DG.

e) It is agreed that eventually all technical areas will be dealt with in each DG in order to avoid the development of different practises in each DG according to the technical areas it deals with and in order to avoid applicants knowing beforehand where a particular application will be dealt with.

f) For harmonisation and training purposes DG1 examiners participate in examining divisions in which DG2 examiners are present.

g) Training programmes are the same in DG1 and DG2 and are given by the same lecturers.

2.2 Working methods

After having tried out different working methods it very soon became apparent, that a significant improvement in the procedure could be only obtained when the search examiner after completion of his search report directly prepares a first communication. The project now mainly concentrates on this working method.

It must be stressed that under BEST the European search report is drawn up according to the requirements of Article 92 EPC : the BEST search is a complete one. So-called tactical searching is rigorously avoided.

Oral proceedings when they arise in respect of cases dealt with in DG1 will take place in Munich or in DG1 depending up on the wishes of the applicant. Opposition on all cases whether examined in DG1 or DG2 will be dealt with by DG2 examiners in Munich. Hence oral proceedings thereon will be in Munich.

2.3 Schedule

It is expected that in the steady state, about 75% of the EPO workload will be treated under BEST (mainly EP and WO applications for which the EPO is ISA). The implementation, limited by the training capacity in DG1 and by the availability of online search tools in DG2, will be carried out progressively until year 2002. Presently about 250 examiners in DG1 and 50 in DG2 are working on the BEST program.

In the year 2002, about 55,500 searches and 48,800 substantive examinations will be carried out under BEST.

2.4 Advantages of BEST for the Applicants

It should be stressed that BEST is not only intended to save time per file for the EPO, but also to provide a better service. There will an increased harmonisation in practice between DG1 and DG2 and the fact that a letter has already been written means that an official communication can be issued by the examiner as soon as it reaches him during the substantive examination phase. This means that an official communication is issued weeks or months faster than under the old system with no chance of a sudden divergence of opinion between DG1 and DG2 (e.g. about unity). The risk that a substantive examiner will cite an additional document which was not mentioned in the search report is also greatly reduced.

The above advantages apply not only to European applicants but also to PCTs for which the EPO is the designated office.

3. BEST and Automation.

The BEST project and Automation are deeply inter-connected. The BEST project would not be possible without Automation (no search tools available in Munich) and the Automation would be certainly more difficult to implement without BEST (ergonomic problems linked to a log time spent in front of a screen necessitate job-diversification).

BEST mainly relies on the use of the EPOQUE system and the BNS.

3.1 EPOQUE

The EPOQUE system comprises the suite of integrated applications to enable an electronic search procedure: a search and retrieval system (EPOQUE I) and a browsing and navigation tool (EPOQUE II). EPOQUE I provides on-line access to internal (EPODOC, WPI, PAJ, INSPEC, IBMTDB, EPOS, F-terms, US classification) and of external (main hosts used: Questel-Orbit, STN, Dialog) databases and personal databases using a common command language and a standardised set of data formats. The search and retrieval function permits interactive interrogation of bibliographic and full text databases.

EPOQUE II allows an online dual mode access to the full text and drawings of patent documents as well as near-line access image (facsimile) databases (BNS 2).

EPOQUE II contains one patent family member of PCT minimum documentation from 1970 onwards and all drawings from drawing-oriented fields (about 70 IPC s/cl) from 1920-1970. This basic package currently represents a volume of 3.7 millions documents and will be expanded according to the needs of the various technical fields.

EPOQUE has mainframe system components which provide the host service for making available an ever increasing number of databases to workstations and terminals and a workstation component. The latter comprises a sophisticated multi-module graphical user interface. The user interface allows composition of search queries with subsequent viewing followed by printing (if necessary) of both retrieved text information and facsimile information. The viewing is carried out on high resolution colour screens and printing can be accomplished on workstation, decentral (corridor) postscript printers or in the central print shop.

The EPOQUE system is the cornerstone of the electronic search systems at the EPO. Like all search systems it depends on the quality and amount of available data and hence on the database production area. Efforts are being made both to acquire new data internally and externally and at the same time to improve and correct present databases. A new system, DOCTOOL, will allow examiners to associate keywords, indexing terms, classifications and free text to documents thus increasing the precision of the search results and the navigation through the documents.

3.2 BNS

The BACON Numerical Service (BNS) which will essentially be an electronic library server containing the EPO's complete patent search collection and capable of delivering on demand documents to client applications, is an essential step in the implementation of the BEST program, and more specifically in Munich where no classified paper documentation is available.

The data for the BNS currently consists of approximately 20 Mio documents containing about 200 Mio scanned page images. The total volume of image data is expected to be around 13 Terabytes in 1995. The BNS is based on a robot technology provided by Storage Tek.

The system will enable a BEST examiner to consult on screen the documents which he has identified during a search in online databases using EPOQUE II and in a further step to print for deeper study paper copies of those documents which have been selected by the consultation on screen.

In a first development phase, BNS at level I will provide batch mode access to the retrieved documents. In the second development phase (BNS level 2), the system will offer the BEST examiners near line access with high priority (about 15 minutes response time) to the selected documents.

4. Online searching in the future

BEST-DG2 entirely relies on the new EPO concept, based on three tools:

—identification (EPOQUE I)
—consultation (EPOQUE II)
—document delivery (BNS).

It is expected by successive use of these tools to divide the number of documents to be studied by a factor of 10 in each step, e.g.:

2000 doc EPOQUE I> 200 doc EPOQUE II>20 doc study on paper> search report

5. Conclusion:

BEST will be a major step in the development plans of the EPO and will expand with corresponding improvements and expansion of the on-line search tools available to the examiner. All necessary steps will be taken to ensure at the very least, the maintenance of present quality.

APPENDIX 1

Home>Media Vault>Transcripts

UNITED STATES PATENT AND TRADEMARK OFFICE
DIRECTOR JIM ROGAN
TOWN HALL MEETING
STRATEGIC TECHNOLOGY PLAN
EXAMINER SESSION 2
Wednesday, September 4, 2002

[TRANSCRIPT PREPARED FROM A VIDEOTAPE.]

P R O C E E D I N G S

DIRECTOR ROGAN: Ladies and gentlemen, good afternoon. I hope you had a nice lunch, and if you had a chance to have a vacation, I hope you had a nice vacation, too. Welcome back. If not, you probably should be taking one while you can.

Forgive the framework of the room. We wanted to open this up to as many examiners as wanted to come, and we didn't have a room large enough at the PTO, in fact, the hotel didn't have a room large enough, and so--for examiners and managers--and so I've just been doing this all morning, and I'm doing two more of these.

Let me tell you the purpose of the meeting, and what I intend to accomplish in the next 15 or 20 minutes. It is not to brief you on the strategic plan. You've already been briefed on that. It's been on the web site for a few months. You've had the opportunity to look at it, think about it, chew on it, talk about it.

The purpose of this meeting is I thought it would be helpful to the employees who cared to know about the rationale behind it and what went into it and why suddenly a 200-year-old agency, such as the Patent & Trademark Office, is undergoing such radical change. It has very little to do with the fact that you have a new Director. It has even less to do with the idea that I am somehow a creative person, because that clearly is not the case, but what I am is somebody who served in Congress for four years and who is one of only two members of the entire House of Representatives that served on the two committees that dealt with intellectual property, both here in America and around the world. Those two committees are the House Judiciary Committee and the House Commerce Committee.

And so during my four years in Congress, I had sort of an almost unique experience of seeing how Congress responds to the PTO from behind closed doors, not just in their transcripts and in their public hearings, but also what is being said in the back room, and hopefully use that knowledge to help the Agency, and that was the genesis for the 21st Century Strategic Plan.

Now, in a perfect world, we wouldn't be looking at undergoing such radical changes, so I want to share with you the reason that that is now on our plate. Unlike a regular business that has the flexibility to run like a business, Congress expects the PTO to run like a business; only we don't have that flexibility, especially on the Patent side. With respect to the increasing backlogs for you, in Trademarks, and on

support staff, just so you know, we did about 350,000 patent applications a year. Those get thrown into a pile of about 408,000 that are already in a backlog, and we have about 3,400 examiners trying to go through them--some of them are genetic patents, some of them are obviously very complex, high-tech patents.

In a perfect business world, the way it would work is this. We would come together, and we would figure out, for Patents & Trademarks, what is an acceptable level of pendency, what is an acceptable, measurable level of quality, how many examiners do we need to do it, what do we have to pay them to recruit them, what do we have to pay them to retain them, what do we have to pay our support staff to retain and recruit them, what do we have to do to train the examiners, maintain their training, take all of the factors into consideration and set our fees accordingly, and that's how a business would do it.

We don't get the privilege of trying to run like a business in another way. We don't get to cut ourselves a profit margin. Congress directs us to be a fee-based agency, and we have to submit our budget to Congress, and the way it works is this. We have to tell them exactly who we want to hire, how many people we want to hire, what we intend to do with the money that they let us have, and then they decide whether or not we've made a good case for it or not.

When they divert money from the PTO, the 10-percent shortfall, or a20-percent shortfall, or a 30-percent shortfall, unlike a business, we don't get to raise our prices to make up for the difference. So if we tell Congress there's a backlog, there are e-filing considerations that we're trying to move to, we're trying to improve in quality areas, we need money to do all of these different things that will make us a more efficient Agency, if Congress doesn't appropriate that money to us, if the administration doesn't support us getting that amount of money, we don't get to make up the shortfall. We have to just start cutting because that's the way it works.

Now the good news is that the President recommended us to get I think it was about a 21-percent increase in our funding in the budget that he submits to Congress. He doesn't get to write the budget. He has to make the request to Congress. That was when every other non-defense agency got a recommended average of about 2-or 3-percent increase. The President understood that we have significant issues that we need to deal with here, and the biggest one is hiring and training more examiners, particularly on the Patent side because of the incredible backlog.

That is not what we are looking at right now from the United States Congress. When I was in Congress, the level of dissatisfaction with the PTO's performance, as Congress fairly or unfairly perceives it, is such that they decided to impose a five-year requirement that the PTO start sending up business plans for five years so Congress can review them. The response to those, thus far, have been negative for the last couple of years.

When the President nominated me a year and a half ago, it took about seven or eight months to get confirmed, during that process in early 2001, the PTO had already submitted its budget to Congress, and the response from Congress was negative. They rejected the business plan.

The business plan was a good business plan. It was a business plan that made sense. It basically said, on the Patent side, we have such a backlog,

examiners are so under the gun that we would like to hire I think it was 5,000 new examiners--a thousand a year for five years.

The reason I wanted to bring you all together is I wanted to try to lift the veil for you and tell you the way Congress responded to that. I want to read to you--it's not very long--the report language from both the House and from the Senate at the request of the PTO a year and a half ago when they laid out their case for hiring, retaining, recruiting and promoting.

This is what the House of Representatives said. By the way, the House is Republican, the Senate is Democrat. This is a bipartisan deal. There is no partisanship going on here. The House said: "We remain concerned that the Patent & Trademark Office is unable to meet the demands of the increasing number of patent applications. We're concerned that with the increased funding the office has received in the past there is no measurable increase in performance. Every agency must set performance measures and strive to meet them. If these goals are not met, the Agency must be able to answer the questions from Congress as to why it is unable to meet these goals. The PTO has continually criticized Congress and the administration for not allowing full access to their fees in the year they are received. Yet the PTO has been unsuccessful in proving that increased funding will decrease the amount of time it takes an applicant to receive a patent."

That's what the House said. This is what the Senate said: "Although patent filings have increased dramatically over the past decade, the PTO has chosen to remain wedded to an archaic patent process and attempted to hire its way out of its problems. PTO management proposed hiring an additional 1,100 patent examiners in fiscal year 2003, but proposed making the patent application process fully electronic only in 2006." Translation: They are criticizing us for wanting to hire people now, but not move to e-filing for five more years.

"A substantial amount of funds have been expended on information technology projects over the last decade, but no significant increase in examiner productivity has been noted. Finally, the committee lacks full confidence in the information provided to it by the PTO regarding its needs and performance."

And this was written, as I recall, before I was even sworn in. Now, with Congress, when you submit your budget, when you write your budget and submit the budget, it's almost a two-year-in-advance process. Here we are in the summer of2002, and the administration and Congress right now is already looking at the 2004budget. The 2003 budget is in the can, and they're working out the final details on that. So by the time I got sworn in, the 2003 budget, our budget for next year was already in the works, and the PTO had already drafted its business plan. Now that language was for the 2002 business plan, but the business plan that we drafted and submitted was the same kind of plan. We need to hire 5,000 more examiners on the Patent side over the next five years.

Well, I knew, as soon as I looked at it--it was prepared before I go there--I knew what kind of reception it was going to get, and it was not a failure on the part of PTO managers because if you look at this Agency, we really, oftentimes, have to deal with these issues with our hands tied behind our back. Here's the dynamic in Congress. Congress sits there and says, "We're taking your money because you guys can't get the job done in a timely and quality manner."

The PTO says, "But you're not giving us the money that we need to do the job." The user groups keep showing up in Congress griping that the PTO takes too long, and they can't trust the quality, but none of them want to pay more fees to hire people, and so essentially PTO staff and managers are in this conundrum. Well, what do we do? It's almost a--it's a catch-22 situation. They won't give us more money to hire more people because they say we can't do the job, but we can't do the job because they won't give us the resources to hire more people, and they say they won't give us the resources because you're not doing the job. I mean, it's just this circular argument, and so we had to regroup very quickly.

I went to Congress and testified on that 2003 budget plan that I did not draft, but I did not repudiate because it was the best deal that could be done by non-politicals without a political imposition, and I told Congress, under the status quo, this is as good as it gets, and as good as it gets is, whether you want to hear it or not, we have to hire more patent examiners.

The backlogs are unsustainable. Allowing claims to be filed in the scores or in the hundreds and in some cases in the thousands is simply unacceptable because our office is not designed to handle applications with 500, and 1,000 and 5,000 claims. We had an oil company recently got a patent granted on I think 17 claims. They filed 5,200 claims, and one examiner is supposed to look at that.

And so if we were going to have a chance to get funding for this coming year, we knew we were going to have to step in and do something dramatic, and we were going to have to do it quickly, and that's why I put together a working group to try to effect the '03 budget.

Now there was a couple of ways I could have handled this. There was actually three ways I could have handled it. Being political and understanding the way it works in Washington, the easy thing for me to do would be to say, "Hey, look, you know, pendency was a problem before I got here, pendency is going to be a problem after I leave. Tinker with this on the margins, and go spend a lot of time in Geneva, and when I leave just let the next guy handle the problem."

That is not acceptable, and I didn't come here to occupy space or to add another title to my resume. I actually like the title "judge" far better than Director.

The other thing that we could do is window dress or we could try to make a change. I didn't want to sit in the office by myself, with no background as a patent or trademark examiner, and try to figure out what do I need to do to fix this problem.

So what I did was look to people who have been here in the Agency and came up the ranks for decades, and I had to recruit one back to the Agency who was here for 32 years, Brad Huther, and retired four or five years ago. I wanted to bring somebody who knew the Agency--the reason I wanted Brad to head the working group is I wanted somebody who knew the Agency, and I'm going to just be candid with all of you, I wanted somebody who knew the Agency, but who also could separate truth from fiction and tell me whether the story I'm getting is the straight story, and who's already got his pension and doesn't have any ax to grind in this whole thing, and he can leave tomorrow, he still gets his pension, and it's really no skin off his nose.

I wanted somebody that had--the only stake I wanted the head of this working group to have is a stake in making sure that the agency in which he gave his life of

service could operate properly. We put together a group like Steve Kunin, and Bob Anderson, and about a half a dozen people. It started with a half a dozen, and it expanded to a couple of dozen, and I told them cast your net as wide as possible. If examiners--let people know we're looking at it.

Examiners started sending input to me; they started sending input to the managers or to the working group. Managers started doing the same thing. You all know. I mean, a lot of you here probably have corresponded with me, personally. I was spending three and four hours a day almost every day at my computer just trying to answer examiners' e-mail. It got so laborious; I just couldn't do it anymore. I started collecting the questions, and we would post them periodically on our web site.

We had listening sessions. I spent a lot of time on the road going out to the user community trying to make them understand what our problems are and how they have to help be part of the solution rather than part of the problem.

We submitted the strategic plan on June 3rd. That was not a random date. We knew that with the 2003 budget about to be going to the committees, and being already under debate and about to be passed, the only chance we would have to reverse the negative impact of Congress's impression on this agency was to try to show them we were willing to make a change.

Now almost about the same time, right about the time we were submitting the plan, the Senate came out with their report language, and that means the Senate Committee has indicated what they are going to do for us on the budget, and please listen to this because you need to hear this.

The Senate report right now, as it stands, says that they are appropriating to us an amount that if it stands--and I don't want to scare you with this because I, personally, if I were a betting man, I would tell you I don't think it will stand. There will be a negotiation--but the Senate mark right now, as it stands, would not give us enough money today to pay the bills that we have for everybody that's here just today, just today. It's about $35 million short of our current operating budget, and in that, by the way, they said with this amount of money, we expect you to go hire 750 new examiners. Well, what that means is we would have to do what we do every year since we became a fee-based agency. We take the money and hire more examiners. We can't be competitive in pay, we can't be competitive in training, we can't continue to improve IT, we can't do all of the things we need to do to be a truly world-class intellectual property organization. That is not an option.

I know that the strategic plan is something a lot of people have heartburn with, but let me just offer this to you. In that same Senate mark, they left a window of hope. A Democrat Senate to a Republican administrator, to show you that this is bipartisan, left some language in the report, and I just want to read you part of a paragraph.

"The PTO has briefed the committee on the outline of a five-year strategic plan for the Agency that is generally responsive to the direction from Congress."

So I'm going to stop there for a second. Part of that is outsourcing issues. Part of that is all of the other things that you've been e-mailing me about for along time saying, "I don't like."

Well, I'll tell you, in a perfect world, a lot of the things we're look in gat doing, I would prefer not to do, also, but Congress has given us our mandate. If we're going to get money, and if we're going to be funded, we're going to have to make changes. And they are saying, from the changes that we have put on the table for them, it is generally responsive to what Congress is looking for us to do, and then it goes on to outline what many of those changes are.

And then they conclude by saying, if any implementing legislation, including fee changes, are approved by Congress, then they will be willing to look at passing a supplemental spending bill to add money to the mix for the PTO and let us keep the additional funds that will allow us to do the job."

I just want to say a couple more things so that there's no confusion on this. I want to say this to the Trademark lawyers, particularly. There is just no easy way to deliver the news to you, and I'm not even going to try to take the sting out of it, but there's one thing you do need to know. The strategic plan has nothing to do with the RIF, nothing.

Months before I was ever sworn in, the very first time I ever met with the Commissioner of Trademarks, I don't think I'd ever met Commissioner Chasser before. I think it was six months before I was sworn in, right after I was nominated, she came to meet me, and she laid this out. She said, "On your first day on the job, this is something that you may well be faced with, and I wanted to give you a warning ahead of time."

Those of you in Trademarks will remember, when I came on board right around Thanksgiving or Christmas last year, many of you were panic-stricken, rightfully so, that here around the holidays a new Director was going to walk in and RIF you, and I told you then I had sat down, met with Clarence Crawford and our budget people, and we just, we wouldn't do the RIF now. We would absorb the cost, and we would keep our fingers crossed and see if filings go up. And if they do, great, and if not, then at the end of the fiscal year, we're going to have to face a difficult decision.

Now I'm not re-litigating this with you and revisiting the issue to debate it with you. I understand how most of you feel about it, but I'm telling you that because I want you to know that it had nothing to do with the strategic plan. The strategic plan mostly is focused on patents, and mostly is not focused on trademarks and has almost nothing to do with support staff.

The earlier presentation I did, one of our wonderful support staff came up to me and said, "In the strategic plan you don't talk about us really very much, and you didn't say much about us."

I put my arm around her, and I said, "Believe me, in this environment, not being in that plan and not being talked about is good. It's better that way."

[Laughter.]

DIRECTOR ROGAN: I want to talk about outsourcing the search while we're on the Patent & Trademark side.

First, on the Trademark side, when we were initially doing this, we were thinking, well, uniformity, the reasons for doing it on the Patent side are probably there for the Trademark side. Truthfully, as we've sat and taken input from the union, from you, from the user community, it's clear that the reasons are different, and so

we've made the decision not to go forward on outsourcing the search on the Trademark side because, in fact, we have just the opposite problem on Trademarks as we do on the Patent side.

But for you on the Patents, let me just tell you, if I were to ask for as how of hands of how many of you like outsourcing searches, I probably wouldn't see many hands. I asked Steve Kunin if he liked the idea, and he said, "No. Personally, if I were an examiner, I'd rather do my own search too."

But there just aren't a lot of options for us with respect to the work of a patent examiner. The major time function is either on the search or the examination. What happens if we outsource the examination? That is not ministerial. That is not a technical function. The examination process here in the PTO is making that quasi-judicial determination of whether something is or is not patentable. That is a sovereign function, and so that is not something that we think is outsourceable.

The search is different. There are numerous examples around the world for major intellectual property offices, including Europe and Japan, that have done it, are doing it. Do their workers like it? Probably not, but we had to be able to show Congress that we were willing to meet the mandate of what they were telling us to do to get outside the box of just saying, "Give us more money to hire more examiners."

Now for those of you on the Patent side that are concerned that because your job, that we're looking at outsourcing the searches, this is somehow some secret cabal to get us outsourcing the examination, too, and do away with patent examiners, then I would respectfully refer you to the strategic plan that doesn't say now that we're outsourcing searches, we don't need more patent examiners, we need less or we need just a handful of them.

We are still saying we want to be able to hire 750 new examiners this year, and give us the opportunity over the next five years by hiring 2,500 or 3,000 new examiners, basically, doubling our examination crew. I mean, if you think from Thomas Jefferson's time to today, we're at about 3,400, and we want to add up to 3,000 more in the next five years, that is not indicative of trying to do away with jobs. It is indicative of wanting to change the focus on those jobs.

And so this is the--there's more I can say about this, but I want to leave time for the union and also I asked Brad and a couple of the people on the working group at the end of the union presentation to make themselves available for Q&A because some of you may well have questions about what options did you look at and why did you accept these options, and so they'll be available to do that.

I just want to leave you with this one point. This is not a perfect world, and there are a lot of changes that are going to hurt, but there are also a lot of changes that are going to help.

If we're able to implement the strategic plan, we will have a quality focused-agency where pendency will go down, where we will lead not just the Federal Government, but the world on e-filing and e-government, and we will give a service to our customers, far beyond what we do now. They will be able, with the click of a mouse, using a compatible system, to seek protection for their intellectual property, I believe, in virtually every major patent office in the world. That's what we've been negotiating with various patent offices.

I want you to know, personally, that the reason I came back into Government after 17 years of being a gang murder DA, and a judge, and a legislator in the state, and a Congressman, and who thought he had just had his fill of Government service and didn't think I was going to be doing this again, I took this job for one reason--the President asked me.

Well, that's the main reason, but the second reason was it was agency specific. If it were another agency, I would have said, no, but I knew from my time in Congress that the PTO was one of the most professional, if not the most professional, agency in the United States Federal Government, and I wanted to work around people who were professionals and who were committed to serving their country.

That was what my viewpoint was of all of you when I walked in the door, and despite the differences and despite the arm wrestling that we sometimes have to do, I can just give you my solid assurance that will be my view when I leave.

Thank you very much for giving me your attention and for coming today.

[Applause.]

[End of Recorded Segment.]

APPENDIX 2

POPA July 17, 2002 Survey Results

Do you believe examiners can issue valid patents and protect the public from unwarranted patents without doing the search themselves or having the search under their control?	
☐YES	4.6%
☐NO	95.4%
Do you believe that if search and examination functions are separated, overall quality will go up or down?	
☐Quality will go up	1.4%
☐Quality will go down	95.8%
☐Quality will stay the same	2.8%
Do you think the responsibility for doing the search should be placed under the control of the applicant?	
☐YES	3.7%
☐NO	96.3%
Do you believe that the private sector should be in charge of the classification schedule for the patent system?	
☐YES	3.1%
☐NO	96.9%
In new applications where an IDS (information disclosure statement) is filed, approximately how often do you need to apply additional references when making a rejection in the application?	
☐ almost all the time	74.3%
☐ most of the time	16.5%
☐ some of the time	6.8%
☐ almost never	2.3%
Do you trust management to objectively re-certify the competence of primary examiners?	
☐YES	6.6%
☐NO	93.4%
In new applications containing foreign search reports, approximately how often do you need to apply additional references when making a rejection in the application?	
☐ almost all the time	69.0%
☐ most of the time	22.5%
☐ some of the time	6.8%
☐ almost never	1.7%

Mr. SMITH. Thank you, Mr. Stern.

Director Rogan, I'm going to address most of my questions to you, but in just a minute, I will ask the others to respond as well.

My first question goes to the issue, indirectly at least, of fee diversion. I think they are as close to a consensus on the desire to eliminate diversion. And while I know Mr. Stern opposes your strategic plan, generally, both Mr. Williamson and Mr. Kirk have suggested a 3-year sunset to sort of force the issue and not allow the increase in fees to continue indefinitely, and therefore sort of set the status quo in cement.

What would be your response to the suggestion to have some form of a sunset?

Mr. ROGAN. Mr. Chairman, first, I am extremely sensitive to the basis for the suggestion of a sunset. I have testified before this Committee that from the user community's perspective, they have a legitimate argument. Why should I have more fees put upon me if they are going to be diverted? And there is no answer to that because neither you, nor I, nor the President can guarantee that there won't be a diversion from some other Committee.

What I can tell you, Mr. Chairman, the Members of the Committee, and the user community is this: Number one, this Administration is now on record as saying that diversion is wrong, and it ought to end. And the President, even during a time of war, still was prepared to cut that level of diversion. That, coupled with the ability of the Administration to come forward now with the strategic plan, working with the user community, that makes sense has shown the appropriators that we are very serious. The appropriators stepped forward in fiscal year 2003——

Mr. SMITH. You don't think a sunset is necessary if we take the President and the Administration's word for it?

Mr. ROGAN. Here's the problem, Mr. Chairman. Whether diversion ends one day or doesn't end, we still have a backlog of a half-million cases going to a million. Whether diversion ends or doesn't, we still have to hire more examiners, we have to train more examiners, we have to improve our IT system, and if we are put in a position where we're going to bring people on board, make those investments only to have that potentially yanked away from us in one or two or 3 years because of something unrelated to any of us in this room, what position does that put the mission of the PTO in?

If you walk into a room and see an armed robber with a gun to the head of a victim, that victim is in distress. It is not an appropriate response to say, "Drop that gun or I will hurt the victim," and yet that's the practical effect of what a sunset does.

Mr. SMITH. Okay.

Mr. ROGAN. The PTO is in distress. It needs to be able to make these investments, and without the predictability of having fees, how can I, in good conscience, try to bring on 3,000 more examiners, knowing full well that their jobs will be at the mercy of another Committee that may have a different take on it.

Mr. SMITH. Let me go back at it another way, to your goal of trying to reduce the pendency and reduce the number of pending cases. Both Mr. Kirk and Mr. Stern opposed the outsourcing that you have suggested in your strategic plan, the outsourcing of a

source function. Some people would say that you're increasing the fees, and the outsourcing is going to reduce productivity and reduce quality.

What's the response to why we need to outsource and split the function?

Mr. ROGAN. Mr. Chairman, in a perfect world, if we didn't have this massive backlog problem, if we didn't have the critical problem that we have in the PTO right now, I wouldn't recommend outsourcing it. I would hire more, and more, and more examiners and train them, but Congress has already very plainly told us over the last several years the PTO is not going to be allowed to simply hire its way out of a problem. You are going to have to come up with some new different proposals to show that the money is being spent differently.

When we put this plan on the table last year, even the Democrat-controlled Senator appropriators took a look at it and said, "Finally, the PTO is being responsive to us when they're suggesting all of these different things," and outsourcing was one of the things that we could do.

The bulk of our employees dealing with whether a patent gets issued or not are patent examiners. There are essentially two functions there; a search function and an examination function. What else is there to outsource? If we don't outsource the search function, which tends to be ministerial. and keep in-house the quasi-judicial function of examining that patent, we are not going to be able to ever cut through that backlog, and we're going to be in the same condition that we are in right now under the status quo. In a perfect world, I would not suggest it. This is not a perfect world.

And if I may, Mr. Chairman, add 2 days ago the United Kingdom—Great Britain—announced that they are now outsourcing searches for the very same reason, because of their patent backlog.

The Japanese Patent Office has been separating the search from the examination for the last 15 or so years. The European Patent Office for the last 20 years had the search and the examination separated.

I have a letter from Dr. Kober, the president of the European Patent Office, dated today, saying that the representations made here that they are now combining them had something to do with quality is totally erroneous. They did it for productivity reasons because they had a totally different system.

Dr. Kober, and the Europeans, are prepared to change their system to join our system and rely upon our outsourced searches.

Mr. SMITH. Director Rogan, without objection, we will make that letter a part of the record.

Mr. ROGAN. Thank you.

[The letter from Dr. Kober follows:]

Europäisches Patentamt | European Patent Office | Office européen des brevets

Der Präsident | The President | Le Président

EPA/EPO/OEB · D-80298 München

EPA/EPO/OEB
D-80298 München
☎ 089/2399-1000
Tx. 523 656 epmu d
Fax 089/2399-2892

Mr James E. Rogan
Under Secretary of Commerce for
Intellectual Property and Director of
the United States Patent and Trademark Office
2121 Crystal Drive
Suite 906
ARLINGTON, VA 22202
USA

Zeichen/Référence/Référence

Datum/Date/Date
03.04.2003

Dear Mr. Rogan,

I understand that some organisations and individuals in the United States have recently expressed certain misconceptions concerning a program of the European Patent Office, namely, Bringing Examination and Search Together or BEST. I would like to clarify some basic facts about this program to ensure it is properly understood.

Any characterisation that the European Patent Office chose to "adopt" the American system of searching and examining patent applications is simply not true. Our decision to combine the search and examination functions was based on the need to increase examiner productivity. As you know, these changes occurred during a time of transition to a more automated environment and a significant expansion of our staff.

Indeed, the previous arrangement was initially dictated by historical and geographical reasons which no longer apply. However, this separate search and examination program, where the search was carried out by an examiner in The Hague or Berlin and the examination was conducted by a three-man examining division in Munich, produced high quality results and served us very well over a period of more than 25 years. In fact, feedback we have received from our interested circles has consistently indicated high satisfaction levels with our searches.

Hauptsitz/Headquarters/Siège
Erhardtstraße 27
D-80331 München

Finally, all major industrial property offices in the world currently confront a workload crisis that demands creative solutions. That is why I agreed to sign a bilateral record of discussion with you to explore the potential of exploiting searches generated by our respective Offices for counterpart patent applications. I am convinced that this will help improve patent quality, increase efficiency and productivity, and reduce operating costs.

It is unfortunate that recent statements made by commentators on the EPO's current and future plans as well as on the USPTO's plans have characterised our processes as diverging, when in fact they are indeed converging.

Should you wish further clarification of my views on this matter, I shall be glad to provide additional details.

Yours sincerely,

Dr h.c. Ingo Kober
President

Mr. SMITH. Thank you for your responses.

The gentleman from California, Mr. Berman, is recognized for his questions.

Mr. BERMAN. Thank you, Mr. Chairman.

The problem with the sunset suggestion, it would seem to me if this is all about decreasing backlogs, and improving quality, and you're getting a fee increase that is going to be sunsetted, your ability to do long-term things is going to be constrained by the notion that you're not going to have those—you possibly might not have those fees, that level of fees, in three or 4 years.

Your ability to entice people with specialized technology backgrounds or chemistry backgrounds to more quickly evaluate some of the new kinds of things that are being penned coming into the office, they're going to be thinking, "Yeah, this is great, and then I get a lay-off in 3 years," and it's going to be a disincentive to doing what I think we all want you to be able to do with the new fees.

So I have doubts about, I don't quite understand why industry is so excited about the sunset. If they're willing to pay the fees to get the quicker results and the better quality, why isn't the alternative that says, "The bill that authorizes the fees also caps, and then phases down, and then ultimately prohibits the diversion"?

We recognize that probably at the director's pushing, the Secretary of Commerce and the OMB has signed off on a smaller diversion this year than in the past, and that's good, and so we're not going to——

Mr. ROGAN. Just that it was my gentle suggestion, Mr. Berman.

Mr. BERMAN. Your political adroitness, as demonstrated in your 2002 campaign—in your 2000 campaign.

Mr. ROGAN. You've wounded me. You've wounded my spirit. [Laughter.]

Mr. BERMAN. You did a good job there, and so, all right, we won't prohibit the diversions right off the bat, but we'll start a downward decline of diversion amounts for this fiscal year, for next fiscal year. Maybe in the third year or the fourth year, we ban the diversions. The fee increases are permanent. The diversions get phased out. Why isn't that a better suggestion than the sunset?

That is to you, Mr. Director, although I don't know if you're able to speak to those kinds of issues, as Director, given that the Administration probably doesn't have a position on that, but to the other witnesses as well.

Mr. KIRK. Mr. Berman, if I could speak to that, please.

If the Subommittee could enact legislation that would phase down, in a step manner, the amount of diversion, and tie the hands of the appropriators so that it would disappear in "X" years, we would endorse that in the strongest possible terms. There is no question about that as being a better solution.

The difficulty has been that in previous Congresses, it has proven impossible to tie the hands of the appropriators in that way. The way the PTO currently——

Mr. BERMAN. Remind me when it was last seriously tried.

Mr. KIRK. It was tried with legislation under former Chairman Coble. I can give you a number. It disappeared——

Mr. BERMAN. That was an amendment to an appropriations bill, if I recall.

Mr. KIRK. No, he had other bills——

Mr. BERMAN. We both had bills, yeah, they just——

Mr. KIRK.—before you that did not get to the House floor and did not move forward that have banned it. We would strongly endorse that. That's not an issue there.

The difficulty that we have seen in the past is that, as good as the intentions are of every member on the authorizing Committee, there seems to be a disconnect in conversations between this Committee and the Appropriations Subcommittee.

Mr. BERMAN. The Appropriations Subcommittee doesn't get to hear that bill. There are a lot of appropriators. If you don't want to do it, it's not going to happen, but if you make it a priority, and you push, you got some arguments in favor of it.

Republicans like to say that user fees shouldn't be tax increases. This supports that principle. What self-respecting nonappropriator Republican is going to vote to allow higher user fees than are necessary for the function in order to see them diverted and thereby support tax increases?

You're going to have a lot of Democrats, I think, who are going to think that the technology promotion issues involved in improving the patent process are so important to the economy that they'll support it, and in the end, while the appropriators, there's a lot of them, they are still less than a majority.

And if people and the companies make it a priority, why wouldn't you want to at least take the chance and push it a ways and see how far you can take it?

Mr. SMITH. Mr. Berman, your time has expired. Without objection, we will yield you an additional minute, but I would prefer that that minute be used to give Director Rogan a chance to respond to your suggestion as well.

Mr. ROGAN. Mr. Chairman, Congressman Berman, if I had just arrived on this job without having the benefit of Washington service, I would probably think it was a great idea to tie into this fee bill a statutory end to diversion.

The practical reality is I don't think that bill would go anywhere. It's been tried before. Those bills haven't gone anywhere, and so if the suggestion that is being made from the user community is let's just try it again and hamstring this fee bill, then I think we end up with the status quo.

Mr. BERMAN. I've been on this Subommittee for 20 years. I don't believe there's ever been a serious attempt by this Subommittee to make this happen—a serious, lobbied, whipped, argued attempt. I think there's been rhetorical flourishes, and bills introduced, and then it's all dissipated into the ether.

So the question seems to me a little bit is it's up to us, along with the community.

Mr. SMITH. Thank you, Mr. Berman.

The gentleman from Virginia, Mr. Forbes, is recognized for his questions.

Mr. FORBES. Thank you, Mr. Chairman.

Mr. Rogan, let me compliment you on your leadership since taking over as director in December 2001. You've given us a bold plan

to modernize outmoded operations, but what I was going to ask you, if you could please tell us what actions, if any, the office is taking to comply with congressional mandates to establish and implement objective patent quality standards and to establish regular reporting with relevant congressional Committees on those matters.

Mr. ROGAN. Well, of course, this particular Subommittee has been aggressive in their oversight, and we welcome and appreciate it.

What we have tried to do, actually, Congressman Forbes, in the Strategic Plan, is put pendency issues to the side and make them secondary and make quality the permeating factor. The one thing I heard from all around the country, and every group that I spoke to, was the same message: We don't like higher pendency, but we would rather have higher pendency if it meant better quality.

Unfortunately, in the world of pie charts and bar graphs, pendency is the one thing that can be measured. Quality is far more ephemeral. What is quality?

And so what we've tried to address in this is, to the extent that we practically can, let's take the operation we have now and try to implement quality at every stage in the pipeline, rather than simply hire people, train them, send them on their way and do a statistical analysis at the end of the day to see how we're doing.

Yes, we'll continue doing things like we're doing now with supervisorial review and continuing training, but we also want to do a lot of other things. We want to raise the bar on hiring, we want to raise the bar on training, we want to require that examiners be certified and maintain certification in their relevant technologies.

Our managers all thought that was a great idea. I went and told the managers it's such a good idea we're going to make you be certified and maintain your certification in these critical technologies. We're not going to let you be treated like tenured professors in this place.

So we've been working very closely with the user community, trying to listen to what their concerns were, listen to the concerns of Congress, and to the extent that we can put our resources on the quality side, even though it's not as measurable on a chart, we know that that will make a better office because when we make a mistake on a patent application it's not close enough for Government work.

There are significant economic repercussions that occur if somebody has invested in a company and a technology, and they've hired people, and somebody else pops up and says, "Gee, that thing they issued to you was a mistake." We get it, and so we're doing everything we can, within the rules of Government, to put our focus there first and then push pendency. But pendency should be the second rung of our attack.

Mr. FORBES. And one last question, and I don't know if there's much you can do about this, but I noticed in a recent article in the New York Times that they published concerning the patent quality and its impact on a practice of patent donations for tax deductions, can you tell me if the office has any plans to help deal with that or if they've had any discussions along that line.

Mr. ROGAN. I haven't. I heard about the article. I didn't read the article. We pretty much, we issue, we call "balls and strikes." We issue patents, we don't issue patents, and then they're out the door, and what people do with them in that regard is really beyond my portfolio.

Mr. FORBES. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Forbes.

The gentlewoman from California, Ms. Lofgren, is recognized for her questions.

Ms. LOFGREN. Thank you, Mr. Chairman.

I think this is a useful hearing, and I appreciate the efforts being made by Mr. Rogan and the PTO on the revised plan, and listening and trying to improve it.

I understand that we have to get some more resources into the office. We've known that for a long time, but I can't match Mr. Berman's tenure on the Committee, but I've been on the Committee now for a number of years, and every year we say, well, we're going to end the diversion of fees, and we vote unanimously to oppose it, and when you were a Member of the Committee, you voted to oppose it, too, but every year it continues.

And I have sort of reached the conclusion that I should follow the First Lady's advice, "Just say no." I don't think I'm going to vote to increase any fees until we get this solved.

I think that the fee increase for a diversion is simply a tax. It's a tax on innovation, and the technology sector, and the inventors of the country are willing to pay their income taxes, and they're willing to pay increased fees for the Patent Office. I just don't think it's appropriate to tax them on inventing. That's the complete wrong direction.

And I think Mr. Berman is correct. We have never really gotten serious enough about this. We've all talked about it, and we all share the blame. I mean, I'm not going to single any of us out, but if we wanted to be serious there are things we could do, and we need to involve the private sector, and the business community, and lobbying for this, and I think we should do that.

And we could say that if you divert the fees by an operation of law, they are replaced automatically dollar-for-dollar by the Attorney General's budget and let the Attorney General go fight for his money or by the Defense Department. They always get their budget. Let them go fight for that amount or I've been, as you know, Mike, been working to put together a bill that creates kind of a Post Office-type insulation, so that really it would be very difficult for appropriators to grab the funds.

I really think that we need to get very serious about this, and I know, Jim, that you agree on the diversion. Obviously, the role you have now is different than when you were on the Committee, and I understand that everybody who's an under secretary and Secretary has loyalty, and appropriately so, to the Administration and must have at least some discretion in their comments.

But I think that we do need to work to do this, and I've just, I guess, had enough of it, and I would issue a call to all of us on the Committee, this has always been a bipartisan fight. It's been unanimous votes of the full Committee year-after-year, and I really think we ought to get serious, and we ought to get this done, and

we ought to reach out to not only our organizations here, who we rely on so much because of your expertise, but the broader business community.

And at a time when the tech sector is flat on the back, it's not the time to continue to short the Patent Office, its employees who care so much, all the way from the commissioner down to the patent examiners and everyone else. And so I'm not going to vote for this until we get a solution to it, and I hope that others will join me in that, in working for a solution.

And with that, Mr. Chairman, I don't have additional questions, since I have such strong opinions. I'll just yield back the balance of my time.

Mr. SMITH. Thank you, Ms. Lofgren.

The gentleman from Virginia, Mr. Goodlatte, is recognized for his questions.

Mr. GOODLATTE. Thank you, Mr. Chairman. I am delighted to have our former colleague, Jim Rogan. I wish we had you back up here, but we are glad to have you with us when we can.

Mr. ROGAN. My wife is much happier with me right here. Thank you.

Mr. GOODLATTE. Yes, I know. I know.

We see a number of friendly faces back behind you, too, that we recognize as well, and we're glad you brought all of our old friends back here.

I want to follow up on the question that Mr. Forbes raised with you. I think that I agree with you, and I agree with congressman Forbes, that quality is a vital issue here, and I'd like to know do you have in process some specific undertaking to establish some clear-cut quality control standards?

Mr. ROGAN. We do. In fact, if you look at the 37 different action items that are basically the guts of the strategic plan, I think you'll find almost all of those relate to quality. I rattled off a few off the top of my head a few moments ago for Congressman Forbes.

It's, as I said, from a political standpoint, it's much tougher to focus on quality, rather than pendency, because, at the end of the day, we who run agencies want to be able to come before Congress and say, "I've done something good," and the way I prove I've done something good is to be able to show you something on a measurement.

So if I can show you that I came in office, and pendency was at 26 months, and I got it down to 24 months, therefore, I take a bow, and give me more money for my agency.

Well, I could reduce pendency right now with a stroke of a pen by just simply shortening the time the people have to respond.

Mr. GOODLATTE. You could, and to a certain extent, quality does collide with the amount of time it takes to reduce that enormous backlog that you've got, a growing backlog, I might add.

But by the same token, if you do have objective quality standards, if you implement something that is clearly identifiable and understandable in the process, you can actually expedite the ease with which you deal with patents if you clearly have a path that you're following and clear, objective standards that somebody can look at and say: Does this application meet these objective standards? Is it reliable not only to the Patent Office, not only to the

patent applicant, but also to other people who are affected by the issuance or nonissuance of a patent.

If you do that, then you may actually accelerate the ability to cut through the applications and say: This one clearly doesn't meet these objective criteria. We could move on to the next one, and it could be helpful to your process and not in collision with the need to get rid of that backlog.

Mr. ROGAN. Yes, and to the extent that that can be done, we're doing it, we're trying to do it, and my predecessors have tried to do it, but this is very much like sitting in a courtroom and watching legal cases. Every one of these inventions that comes through is new, it's different, and, in fact, our examiners are looking at technologies long before anybody else in the country sees it, and so we're trying to follow up.

I see in the audience my predecessor, Mr. Dickinson, is here. One of the things that he did when there was a problem on quality with business-method patents was to bring that second set of eyes to look at it and to bring people from the outside sectors in who had been dealing with this.

We want to expand upon that in the critical technologies and the more complex technologies, but that also takes money. That slows down pendency because it means you're taking senior examiners off the line to stop and take a second look at some of these applications, but we'd rather do that and make sure we get it as right as we possibly can than kick these things out to try to improve pendency.

Mr. GOODLATTE. And you have a process underway in which you think you're working towards a more objective, quality metric system than you have now.

Mr. ROGAN. Yes.

Mr. GOODLATTE. Thank you. Anything you can submit to us, we would welcome to have it.

Mr. ROGAN. But that's nothing unique, also, to my Administration. This has bedeviled all of my predecessors, and all of them have tried to work with the private sector to see where the holes are, and where the gaps are, and we're continuing in that regard.

Mr. GOODLATTE. Thank you.

I would not go as far as the gentlewoman from California with regard to her comments on fee diversion and the tie-in to this bill, but I would strongly encourage you to look, and I would encourage the Committee to look at taking a stronger stand, either in this legislation or parallel to this legislation, doing something about that because I think it is a big component to your having the kind of flexibility you need to succeed.

And if there are things that we have not done here to try to nail down the Appropriations Committee, I'm more than happy to gird up, and go out, and participate in that fight. And if it helps to do that with the urgency of what you're doing to say, "Look, in order to accomplish this goal, we've got to also do this," I'm prepared to do that. If it needs to be done in a parallel track, and not interfere with your legislative initiative, I'm prepared to do that, too.

But I do think that the gentleman from California is right. We do need to make this a renewed battle, and I hope that we'll have the opportunity to do that.

Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Goodlatte.

The gentleman from Florida, Mr. Wexler, is recognized for his questions, knowing that we may not have the full 5 minutes.

Mr. WEXLER. I appreciate that, Mr. Chairman.

I'll be brief and just echo the kind words that were said to Mr. Rogan and applaud you for the hard work that you're doing, and for your office and your staff, and the commitments, the genuine commitments that you and your staff have to the patent reform effort.

I know that you have made a significant effort, through your strategic plan, and otherwise, to retain qualified examiners, and you've identified that as one of the challenges, significant challenges that you have, and it would seem to me, if I understand your testimony, basically, your position would be our primary responsibility or the thing that we can do is to change the fee structure, as you've suggested, and I think that's a fair suggestion.

But in concert with Mr. Berman, and Mr. Goodlatte, and others, I also know you've rejected the idea of sunsetting it. And I understand the arguments, but it would seem to me that somewhere in between the two maybe there's some common ground where we could change the fee structure, but have some incentive so that it's not there in perpetuity if the fees are diverted, and you don't have the opportunity to do what you need to do.

I, essentially, would just respectfully suggest maybe you could suggest to us other alternatives we might employ to better enable you to do what you need to do.

Mr. ROGAN. Thank you, Congressman Wexler, first, for your graciousness and, second, there are a number of things that can be done.

I don't want to presuppose to tell or suggest what this Committee or Congress ought to do, but what I would hope that this Committee would not consider doing is holding hostage this needed fee bill to move these quality initiatives, hold it up so that a different fight can be fought. Whether Congress wants to do it in a separate stand-alone bill or some other manner, that would be open for discussion.

But however the legislative strategy develops on the diversion issue, the problems of the PTO aren't going away. They are only going to get worse, and we cannot, in this agency, afford not to be able to implement the quality initiatives that must be implemented if there is anything that is going to hold that ability for us up, and diversion is it.

And it may well be that in the House there are people who think diversion is a good idea, but there aren't a majority of them, and I think that that's probably true, based on my recollection of my former colleagues.

But as we all know, we get over into the Senate, and one appropriator can hold the entire thing up. And we've seen just in the last year what's happened with our backlog by not being able to get a fee bill last year. This is not like wine. It does not get better with age. We've got to be able to get these quality initiatives and get e-Government processing moving today.

Mr. SMITH. Thank you, Director Rogan.

Thank you, Mr. Wexler, for your questions as well.

As you all know, there is a vote pending, and the gentlewoman from Pennsylvania has asked that we submit some written questions on her behalf to you all, and we hope you will be able to reply within 10 days. We appreciate her being willing to do that because that will enable us to adjourn and then go vote.

I also have a couple of written questions that I'd like to submit as well.

The gentleman from California?

Mr. BERMAN. I would like also just to, I want to just probe more on this issue, the issue of the search, not at a hearing, but in written questions.

Mr. SMITH. We all have written questions for you all then.

Thank you for being here. You've contributed much to the discussion and given us some good ideas, and we will proceed to try to improve the PTO.

With that, we stand adjourned.

[Whereupon, at 4:12 p.m., the Subommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE DARRELL ISSA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman and Ranking Member Berman, I thank you for holding a Legislative Hearing on H.R. 1561, "The U.S. Patent and Trademark Fee Modernization Act of 2003." I am concerned that Congress will be passing legislation that will tax innovation.

Quite simply, the United States economy is driven by innovation. The U.S. Constitution grants Congress the 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." Addressing the backlog of patents is necessary to ensure that innovation and our economy is not stymied. I applaud United States Patent and Trademark Office (USPTO) Director Rogan for his wiliness to address patent pendency. The hiring of 3,000 additional patent examiners will assist USPTO in keeping pendency rates at an acceptable level.

I have discussed my concerns with Director Rogan regarding H.R. 1561, and the greatest concern I have is an increase in the initial application filing fees without assurances the revenue will remain within the USPTO's budget. I believe application fees should reflect the actual cost for processing the patents. These fees should be used by the USPTO to hire examiners, purchase office equipment, and to keep it running efficiently—not to be siphoned off to fund a monorail system traversing the Las Vegas Strip or some other unrelated project.

In the spirit of the Constitution and our founding fathers, I firmly believe we should only charge fees required to process the applications. Otherwise, we only perpetuate the practice of taxing innovation.

I thank the Chairman for scheduling this legislative hearing and look forward to working with him and his staff in perfecting this bill.

PREPARED STATEMENT OF THE INTERNATIONAL TRADEMARK ASSOCIATION

Mr. Chairman, Congressman Berman, Members of the Subcommittee:

The International Trademark Association (INTA) is pleased to submit this statement in connection with the subcommittee's oversight of the U.S. Patent and Trademark Office (USPTO). We respectfully request that it be made part of the record of today's hearing. INTA's statement will comment on: (1) the important progress that has been made with regard to the trademark elements of the USPTO's five-year strategic plan; (2) the status of USPTO funding for both fiscal years 2003 and 2004, including the issue of diversion of USPTO funds; (3) the administration's USPTO fee bill; and (4) the implementation of the Madrid Protocol.

About INTA

INTA is a 125-year-old not-for-profit organization comprised of over 4,200 member companies and firms. It is the largest organization in the world dedicated solely to the interests of trademark owners. The membership of INTA, which crosses all industry lines and includes both manufacturers and retailers, values the essential role that trademarks play in promoting effective commerce, protecting the interests of consumers, and encouraging free and fair competition. The members of INTA, who routinely apply for and maintain trademark registrations, along with patent filers and owners, are the customers of the USPTO.

The USPTO Strategic Plan

On February 3 of this year, the USPTO released the summary of its revised 21st Century Strategic Plan. Under Secretary of Commerce and USPTO Director James Rogan has described the plan as a "roadmap for creating—an agile and productive organization."[1] INTA worked closely with the agency to revise elements of the plan's earlier draft, which was released last summer.

July 18, 2002, at http://www.house.gov/judiciary/rogan071802.htm.

With regard to trademarks, the revised plan highlights the use of "electronic end-to-end processing,"[2] including a "trademark electronic file management system"[3]—a concept long supported by INTA. We view electronic filing as an effective means to reduce errors and improve pendency in the examination process. The USPTO intends for the new system to begin operation on November 2, 2003, in tandem with the Madrid Protocol.[4] The strategic plan also calls for greater harmonization of trademark office practices around the world[5] and improved examiner training,[6] proposals that INTA continues to support. One notable difference between the earlier and most recent iteration of the plan is the deletion of the four-track examination system, which included the certified searches strongly opposed by INTA and others when the initial plan was released last summer. The USPTO now proposes a three-tiered approach, without the certified search service as a feature.[7]

These developments are promising. We thank Director Rogan and his staff for addressing many of the issues that we raised when the initial plan was released last summer. And, while INTA must review the detailed version of the revised plan when released before providing its formal endorsement, we believe the strategic plan promises to achieve the USPTO's vision of a "quality-focused, highly productive, responsive organization" that is "fully worthy of the unique leadership role the American intellectual property system plays in both the American and the global economies."[8] At this time, we urge the USPTO to release the detailed revised plan as soon as possible so that intellectual property organizations can provide feedback and the agency can begin to implement the final plan.

Funding and Diversion

The key to implementing the strategic plan in its final form will be adequate funding for the agency. The money paid to the USPTO by its customers is the agency's sole source of funding. The USPTO attends to its responsibilities without the assistance of a single penny of taxpayer money.[9]

USPTO estimates place the fee collections for FY 2003 at $1.204 billion. The FY 2003 appropriation for the USPTO is $1.174 billion,[10] representing a diversion of $30 million. This is less than the amount diverted in past years, but only because USPTO revenues have decreased. Diversion is still a significant problem. According to this subcommittee's own figures, over a 10-year period, diversion has cost intellectual property owners $582.1 million.[11]

Diversion is a factor in FY 2004. A $100 million diversion is part of the president's proposed overall $1.504 billion FY 2004 appropriation for the USPTO.[12] This is 50% less than what the administration had proposed in FY '03.[13] The administration maintains that this reduction is a step towards eliminating the practice of diversion.[14] In support of the president's budget proposal, Commerce Secretary Donald Evans stated in testimony before the Commerce, State, and Justice Sub-

---

[1] Under Secretary Rogan's Statement before the Subcommittee on Courts, the Internet and Intellectual Property,

[2] USPTO, 21st Century Strategic Plan, at 6, 13 (February 3, 2003).

[3] *Id.* at 6.

[4] *Id.*

[5] *Id.* at 7.

[6] *Id.* at 8, 13, 14.

[7] *Id.* at 10.

[8] *Id.* at 1

[9] United States General Accounting Office, Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services, 32 (May 1997).

[10] Pub. L. No. 108–7, H.R. Rep. No. 108–010, 108th Congress, 1st Sess. (2003). The initial appropriation was $1.182 billion. When the mandatory across-the-board cut of 0.678% was applied, the total appropriation was $1.174 billion.

[11] Memorandum from Howard Coble, chairman, to Members of the Subcommittee on Courts, the Internet, and Intellectual Property, 3 (April 9, 2002). The 10-year period covers FY '92 through FY '02.

[12] Budget of the United States Government, Fiscal Year 2004—Apendix, at 216.

[13] USPTO, "President's '04 Budget Request Underscores USPTO's Role in Promoting Economic Growth: Resources Increased; Fee Diversion Substantially Reduced," February 4, 2003, at http://www.uspto.gov/web/offices/com/speeches/03–05.htm.

[14] *Id.*

committee of the House Appropriations Committee: "To support technology innovation and provide for intellectual property protection, the Department is working to eliminate the practice of using USPTO revenues for unrelated federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued." [15]

INTA welcomes Secretary Evans' comments and appreciates his support. Diversion must come to an end.

The Proposed Fee Bill

Statements by administration officials are certainly a step in the right direction to ending diversion. However, they are not a guarantee that the flow of USPTO dollars to unrelated parts of the government will stop any time soon. To that end, while INTA is supportive of the trademark provisions in the proposed *United States Patent and Trademark Office Fee Modernization Act*,[16] our support is contingent upon an immediate conclusion to diversion. Alternatively, INTA's concerns might be addressed by a commitment by the administration that it intends to work with Congress to end diversion combined with the addition of a "sunset" provision. This "sunset" provision would require fees to return to 2003 levels at a date certain unless the legislation is extended by an act of Congress. The "sunset" provision will give both Congress and the private sector the opportunity to assess where we stand with regard to diversion and to evaluate the USPTO's implementation of the strategic plan before deciding whether the increased fees should continue.

INTA is also seeking a clarification in this proposed fee bill. In this proposal, there is a single fee increase for trademarks; the basic filing fee for applications submitted on paper would rise to $375.[17] The USPTO has abandoned its earlier proposal that would have granted the director unlimited authority to raise trademark fees across-the-board. The clarification we seek relates to the provision for a fee decrease—a $275 basic filing fee "for any applicant who prosecutes the application through electronic means under such conditions as may be prescribed by the director." [18] This fee decrease is not mandatory, however. The draft legislation states that the director "may reduce the fee." [19] We understand that this flexibility is deliberately built into the bill because of the uncertainty of when the fee bill will pass versus when the USPTO will have the electronic systems in place to implement the "trademark electronic file management system." [20] Our requested clarification is simple: that the lower fee should become effective upon the implementation of the electronic file management system.

Finally, INTA believes that the proposed fee bill should not take effect before the beginning of FY 2004. Absent a supplemental appropriation to the USPTO from Congress, which at this time appears unlikely, the USPTO would be unable to access the additional money raised through the increases during FY 2003. The money's fate would therefore be uncertain; perhaps it would be used as additional fodder for diversion. To avoid this uncertainty we suggest that the fee bill take effect at the beginning of FY 2004.

Implementation of the Madrid Protocol

The year 2003 is crucial for the USPTO's trademark operation, not only because of the anticipated implementation of the strategic plan, but also due to the scheduled implementation of the Madrid Protocol. The Madrid Protocol is a treaty that facilitates the international registration and maintenance of trademarks. Under the Madrid Protocol, a trademark owner in a member state is able to seek protection for its trademark in as many Protocol countries as desired by filing a single application in its home trademark office in either English or French and upon payment of a single set of fees. This approach offers savings in terms of time and money for both large and small businesses.

---

[15] USPTO, "Commerce Secretary Tells Congress the Administration is Working to Eliminate Fee Diversion: Full access to fees will allow agency to improve patent and trademark quality," at http://www.uspto.gov/web/offices/com/speeches/03–10.htm.

[16] http://www.uspto.gov/web/offices/com/strat21/feebill.htm.

[17] *Id.* at § 3. The basic filing fee for an e-application would be $325 (technically down from the current $335, which was raised through regulation earlier this year to meet fluctuations in the consumer price index).

[18] *Id.* The $275 fee would be for tier 1 applications that are filed under the revised strategic plan's three-tiered filing system. We understand the "conditions" for the $275 fee include filing a fully completed e-application that must, among other things, use the USPTO's ID Manual.

[19] *Id.*

[20] *Supra* n.2.

In 2002, after a decade of consideration the *Madrid Protocol Implementation Act* was approved by Congress and signed into law by President Bush.[21] Also in 2002, the Senate provided its "advice and consent" to the treaty.[22] This success was due in large part to the efforts of this subcommittee and its staff.

Based on statements made to INTA by USPTO officials, the USPTO is working towards a November 2, 2003, activation date for the Madrid Protocol, which would be one year after the president signed the implementing legislation. INTA takes this opportunity to commend the USPTO, in particular, Director Rogan, Commissioner for Trademarks Anne Chasser, and Deputy Commissioners for Trademarks Bob Anderson and Lynne Beresford, for taking the initiative and working in earnest to meet their November 2 deadline.

At present, the USPTO appears to be on track to being ready for the November 2, 2003, start date. On March 28, the agency released its proposed rules package for implementing the Madrid Protocol. INTA is currently reviewing the package and will provide comments.

The other player in the implementation process is the State Department, which is charged with depositing the instrument of accession with the World Intellectual Property Organization in Geneva. To begin Madrid operations on November 2, the State Department must deposit the instrument on August 2 in order to allow for the treaty's three-month notice period to other Protocol countries.[23] On the matter of the State Department's schedule, Paul V. Kelly, the department's assistant secretary for legal affairs, recently wrote to House International Relations Chairman Henry Hyde that deposit of the instrument of accession is dependent on the readiness of the USPTO to implement the treaty.[24] It is therefore up to the USPTO to give the State Department the "green light" far enough in advance so that the instrument of accession will be ready for deposit by August.

We will naturally keep this subcommittee informed of the progress that is being made towards Madrid implementation and look forward to a November 2, 2003, start date.

Conclusion

Thank you for the opportunity to submit a statement in connection with the subcommittee's oversight of the USPTO. INTA looks forward to working with the administration, this subcommittee, and our colleagues in the intellectual property community towards the successful implementation of the USPTO strategic plan; the enactment of fee legislation that provides funding for the plan; an end to the diversion of USPTO money; and implementation of the Madrid Protocol on November 2, 2003.

---

[21] Pub. L. No. 107–153.
[22] Treaty No. 106–41.
[23] Madrid Protocol, Article 14(4)(b).
[24] Letter from Paul V. Kelly to Hon. Henry Hyde, March 21, 2003.

AMERICAN BAR ASSOCIATION

SECTION OF INTELLECTUAL PROPERTY LAW
750 North Lake Shore Drive
Chicago, Illinois 60611
312-988-5598 Fax: 312-988-5628
intelprop@abanet.org
www.abanet.org/intelprop

2002–2003

CHAIR
Mark T. Banner
10 S. Wacker Drive
Chicago, IL 60606
312-715-1000
mtbanner@bannerwitcoff.com

CHAIR-ELECT
Robert W. Sacoff
Chicago, IL

VICE-CHAIR
William L. LaFuze
Houston, TX

SECRETARY
Joseph M. Potenza
Washington, DC

FINANCIAL OFFICER
Mark K. Dickson
Menlo Park, CA

SECTION DELEGATES TO THE HOUSE OF DELEGATES
Jack C. Goldstein (2003)
Donald R. Dunner (2003)

IMMEDIATE PAST CHAIR
Charles R. Baker
New York, NY

ASSISTANT TO THE SECRETARY
Pamela S. Smart
Chicago, IL

ANNUAL PUBLICATIONS CO-EDITOR
Brian E. Banner
Washington, DC

NEWSLETTER CO-EDITORS
Ronald B. Coolley
Chicago, IL

Nagendra Setty
Atlanta, GA

COUNCIL MEMBERS
Gordon T. Arnold (2004)
Houston, TX

Mollie L. Baker (2003)
Boston, MA

Thomas W. Brooks (2006)
Washington, DC

James A. Fussner (2006)
Bonita Springs, FL

Cecilia H. Gonzalez (2004)
Washington, DC

Marylee Jenkins (2003)
New York, NY

David H. T. Kane (2004)
New York, NY

Pamela Banner Krupka (2005)
Washington, DC

Robert O. Lindefjeld (2006)
Pittsburgh, PA

Susan M. McGahan (2004)
Basking Ridge, NJ

Susan B. Montgomery (2005)
Boston, MA

Teresa Stanek Rea (2006)
Alexandria, VA

David A. Rose (2003)
Houston, TX

James E. Schatz (2005)
Minneapolis, MN

Katherine C. Spelman (2005)
San Francisco, CA

Craig S. Summers (2003)
Newport Beach, CA

BOARD OF GOVERNORS LIAISON
Leslie W. Jacobs
Cleveland, OH

SECTION STAFF–CHICAGO
Bella Roach
Director

Michael G. Winkler
Assistant Director

Michelle Castillo-Flores
Administrative Assistant

Julia C. Gillespie
Technology Assistant

SECTION STAFF–WASHINGTON
Hayden W. Gregory
Legislative Consultant
740 15th St., N.W.
Washington, DC 20005-1009
202-662-1772
gregoryh@staff.abanet.org

April 9, 2003

The Honorable Lamar S. Smith
Chairman, Subcommittee on Courts, The Internet, and Intellectual Property
Committee on the Judiciary
United States House of Representatives
Washington, DC 20515

The Honorable Howard Berman
Ranking Member
Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
United States House of Representatives
Washington, DC 20515

Dear Chairman Smith and Ranking Member Berman:

I am writing to express views of the American Bar Association and the Association's Section of Intellectual Property Law on H.R. 1561, the "United States Patent and Trademark Fee Modernization Act of 2003," an Administration proposal that you introduced by request on April 2. The views that I express opposing the continued diversion of United States Patent and Trademark Office user fee revenue to fund programs unrelated to the functions of that Office represent views of the Association. The Association's House of Delegates has adopted those views as ABA policy. Views expressed on other issues, including on individual components of the Administration's proposal for the restructuring Office user fees, are those of the Section of Intellectual Property Law. These views have not been submitted to nor approved by the ABA House of Delegates or Board of Governors and should not, therefore, be construed as representing policy of the American Bar Association.

On July 18 of last year, Charles P. Baker, my predecessor as Chair of the IPL Law Section, testified before this Subcommittee on an earlier version of the proposed PTO user fee bill now under consideration. At that time we were unable to support enactment of the bill, due to a number of problems in concept and design, including the fact that it was designed to perpetuate the practice of diversion of PTO user fee revenue to fund unrelated programs. Since that hearing, the PTO and the Administration have made changes in the bill to address concerns that we and others expressed. The Administration, in both word and deed, has also indicated recognition of the deleterious effect of user fee diversion, and willingness to work to end it. We are therefore pleased to announce our support for enactment of the fee bill under consideration, subject to changes designed to eliminate diversion and to bring the bill into conformity with policies your Subcommittee and the Judiciary Committee have long advocated to end diversion. Our views in this regard are explained in more detail below, in the context of an explanation of positive changes that we find to have been made in the bill and in the PTO's 21st Century Strategic Plan.

The June 2002 Bill and Strategic Plan

Our testimony at the July 18 hearing addressed the earlier version of the PTO's fee proposal as well as components of the PTO Strategic Plan that are inextricably tied to the fee proposal. We commended Director Rogan for his commitment to reform PTO operations, and recognized that his proposed package of changes was specifically designed to address congressional mandates to produce long-term strategic planning that deals with deficiencies in pendency and quality and

expedited conversion to an end-to-end electronic environment. We found the PTO's proposals for improving patent and trademark processing and examination to be a welcome departure from the "business as usual" approach that has hampered previous PTO planning and reform efforts. Mr. Baker's testimony noted that the draft fee bill embodied concepts for an effective overhaul of the PTO user fee system. We pointed to the draft bill's provisions that would set fees at levels that reflect actual costs to the Office in providing the services involved as one such worthy concept, but also noted that this concept was not reflected in some of the revised fees proposed. We also expressed approval of other initiatives under consideration, including acceleration of movement to electronic processing and proposals for certifying and recertifying all examiners to assure their qualifications.

While we found much to commend in the PTO's proposals for restructuring fees and operations of the Office, we also found many defects that outweighed the positive features. As a result, the ABA and the IP Law Section were unable to support the proposed fee bill. The most fundamental basis for our opposition was that the fee structure contained in the Administration's draft bill specifically provided for collections of fee revenue substantially in excess of the funding that the Administration was contemporaneously proposing for the PTO. In short, the bill provided for the continuation, and arguably the institutionalization, of user fee diversion, with no indication of an intention by the Administration to end the practice anytime in the future. I would like to address our concerns regarding user fee diversion, which is still provided for in the present bill, in light of developments since our last expression of views on July 18. First, however, I will comment on changes in the fee bill and in the 21st Century Strategic Plan that the PTO has made in response to criticism that we and other commentators made at or in relation to that hearing.

User Fee Basic: Cost Recovery, Not Behavior Modification

One of the objectives of the June 2002 draft fee bill was to establish fees for specific services that allowed the Office to recover its cost of providing those services. We supported, and continue to support this concept, recognizing that it will result in increases, in some instances significant ones, in fees imposed. We strongly objected to the PTO proposal to set fees for some services at levels that far exceed the cost of providing the services, for the express purpose of punishing and deterring customer conduct in requesting and utilizing those services. For example, the June 2002 draft bill called for fees for excess independent claims and excess total claims to rise exponentially as more claims are added. In the current fee proposal, the concept of setting fees for behavior modification purposes has been largely abandoned, and individual fees that we found objectionable on this basis have been adjusted sufficiently to satisfy our objections.

No Mandatory Information Disclosure Statements

The PTO has withdrawn its requirement for mandatory Information Disclosure Statements, a move which we recommended, and which we applaud.

A Narrower, Calibrated Approach to Contract Searching

The Office has also withdrawn its proposal that patent applicants be required to obtain and provide search reports. Instead, the PTO intends to contract with private sector commercial search organizations to provide these search reports. We believe that abandonment of applicant-commissioned searches is the right decision, and we continue to believe that best system is one in which the Office conducts both the search and the examination. However, we do not object to the Office moving forward with its proposal to certify and contract with private sector search organizations, so long the movement is done on the basis of study and pilot program implementation, with expansion of the practice occurring only as results justify. We understand this to be the intention of the Office.

"Administrative" Instead of "Statutory" Deferred Examination: Differences With Distinctions?

The proposed fee bill submitted to the Congress in June 2002 was designed to accommodate deferred examination of patent applications. It did so by separating the application fee from a separate examination fee, and permitting the Director unlimited authority to set a deadline for payment of the examination fee.

Following widespread opposition in the user community to such unlimited authority of the PTO to defer examination, Director Rogan testified at the July 18 hearing that an 18 month limit would be set on deferred examination.

The IP Law Section finds no public benefit in deferred examination and sees the potential for public harm in its capacity to delay examination and rejection or narrowing of overly broad claims that create uncertainty and reduce investment. In response to concerns of the IP Law Section and others, the PTO has made changes in its proposals for a system of deferred examination of patent applications. The Office indicates that it no longer plans to seek to establish deferred examination by permanent legislation, but will do so by an "administrative alternative" that "achieves most of the benefits of the original legislative proposal." The Office also states that it has abandoned its proposal for separate fees for filing, search, and examination in favor a single fee payable at time of filing, with provision for refund of portions of the search and examination fees under circumstances in which the Office is not required to provide these services.

These changes may be largely differences without distinctions. Under the fee bill before the Subcommittee, three separate fees are still called for. Rather than deferring the payment of the search and examination fees until these services are requested, all three fees would have to be paid at time of application, a change that perhaps forms the basis of the PTO characterization of these three fees as a single fee. The current proposal would give the Director authority to establish a regulatory scheme under which an applicant who abandons an application before examination can obtain a partial refund of the examination and search fees. The system of deferred examination that would be established does not seem to differ substantially from the one called for in the previous proposal. It does not address the substantive concerns that others and we have raised, and may present additional ones. These additional concerns include the unlimited authority that would be given to the Director in establishing time limits on deferral of examination and in setting conditions for and amounts of refunds following abandonment of applications before examination.

The Section of Intellectual Property believes that the fundamental concerns that we expressed earlier regarding deferred examination are not alleviated in the revised plans of the Office. Accordingly, since the PTO is now proposing to implement deferred examination by regulation rather than by statute, we will be communicating our disagreement with this proposal to the Office.

IP Law Section Registers Approval of Revised Plan

On November 22, Mr. Baker and I wrote to OMB Director Mitchell E. Daniels, Jr. to report that, based on changes to the Strategic Plan that Director Rogan made available to us on November 20; the Section of Intellectual Property Law "whole-heartedly endorses the major portions of this revised Plan." We are not aware of any substantive differences in the Strategic Plan that is before you that would cause us to modify the endorsement that we gave the Plan on November 22, and we reaffirm that approval. As we noted in our letter to Director Daniels, we do need to have available to us and to review the numerous program papers that the PTO has prepared in support and explanation of the Strategic Plan and fee bill. Those papers were made available to us on March 28 and are currently being reviewed.

Principles For Fee Setting

During the process of rewriting the PTO fee structure that has been ongoing for the past two years, pricing of individual fees has been guided by two overarching principles. One is that to the extent possible each individual fee should recoup the cost to the Office of provided the service in question. The second is that overall fee structure should produce the amount of revenue determined to be needed for the fiscal year in question.

We agree with both of these principles. We also find that the proposed fee bill before the Subcommittee sufficiently embodies the first of these two principles, and we endorse it in this respect. In determining the bill's fidelity to the second principle, one must look not just to the bill itself and to the revenue it would be expected to raise, but to the "needs" side of the principle as well. In the case of the PTO, a user fee funded agency, the most obvious starting point in determining requisite revenue is a determination of the funding

needed to effectively and efficiently operate the Office and provide quality and timely services. The Administration, in its FY2004 budget proposal that was submitted contemporaneously and in tandem with its proposed fee bill, concludes that approximately $1.4 billion will enable the Office to provide its services and to implement its Strategic Plan. At the same time, it is asking Congress to enact a fee bill that will produce $100 million in excess of the Administration's own projection of funding needs. The excess $100 million recommended in the bill is being sought in order to raise revenue to fund programs unrelated to patents and trademarks.

The ABA's Section of Intellectual Property Law supports implementation of the PTO's Strategic Plan. We believe that implementation of the Plan will require additional revenue beyond that available under the fee schedule now in effect, and we support fee increases needed to produce the requisite level of funding for implementation.

The Administration's Fee Bill: A Good Framework For Enactment

Accordingly, we recommend favorable action by the Subcommittee, the Judiciary Committee and the Congress on the Administration's proposed fee bill, after making necessary determinations and any changes in the bill called for by those determinations. Specifically, we recommend that you first determine the appropriate level of funding required to provide the services called for in the Strategic Plan. The Administration estimates this amount to be $1.4 billion for fiscal year 2004. We have no basis on which to disagree with this figure, but your own review may lead to difficult conclusions based on differing analytical criteria, availability of more recent and more accurate information on the projected workload and resource needs of the Office, and other considerations.

Parity of Fee Revenue and Funding

Having determined the appropriate level of funding for the Office, we recommend that you act favorably on a fee bill designed to produce that amount of revenue in FY 2004, the first year for which the new fee schedule would apply. We believe that the bill prepared by the PTO and approved by the Administration provides an appropriate framework for a final bill. It has been carefully and extensively reviewed, commented upon, and improved, and it has widespread support in the PTO customer community, including the support of our organization. Another advantage of using the Administration's bill as the framework for a final bill is found in the ability of the Office to use the bill and its computer models to quickly adjust individual fees to produce the required changes in overall revenue targeted for the new fee structure. The Office has demonstrated this capability in the last several months of discussion and negotiations with customer groups, and has generously made that capability available to us.

The bill that we recommend differs from that proposed by the Administration in only one respect. While the Administration proposal is specifically designed to generate revenue in excess of funding for the Office--$100 million in FY 2004--our proposal is specifically designed to produce parity of revenue and funding.

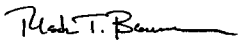
The Administration is to be commended for the serious attention that it has given recently to the problems created by diversion of PTO user fee revenue. Secretary of Commerce Don Evans and OMB Deputy Director Nancy Dorn have met with leaders of organizations representing the PTO customer community for serious discussions in pursuit of finding an end to this practice. Regrettably, the Administration did not propose a FY 2004 budget that would end diversion. However, it has more recently, in testimony of Secretary Evans on that budget proposal, for the first time recognized a need and intention to end the practice. In testimony last month before both the House and Senate Appropriations Committees, Secretary Evans stated "the Department is working to end the practice of using USPTO revenues for unrelated programs," and acknowledged that doing so "will enable the agency to increase the quality of patents and trademarks issued."

We believe that the recent acknowledgement within the Administration of the harmful effects of PTO user fee diversion and the need to end the practice provides a powerful additional reason for a case that was already strong. The decision to continue or end the practice is one for which the Executive has an important role, but that role is one of advising, not deciding. The decision lies with Congress. Ordinarily that congressional

decision begins with and is largely decided within the appropriations committees. However, the need to act on user fee legislation that will determine the amount of revenue available to fund the Office presents a unique opportunity and obligation for the authorizing committees to play a major role in determining if and when diversion is to end. The Administration now seems to be saying that it is no longer a matter of if, but when. We strongly urge you to answer that question "Now."

Your Subcommittee and the Judiciary Committee have an unbroken record of opposition to user fee diversion and pursuit of legislative solutions to end the practice. Approval of a bill to revise user fees to levels designed to raise revenue in excess of intended appropriations would be a sharp departure from this consistent course. You faced a similar situation at the time of the expiration of patent user fee surcharge enacted in the Omnibus Budget Reconciliation Act. At that time the Clinton Administration recommended an increase of statutory patent user fees in amounts required to replace the revenue lost by the expiration of the OBRA surcharge. However, that proposed fee increase was accompanied by a budget request that called for annual diversion of $50 million from PTO user fee revenue. Faced with a situation that is closely paralleled by the current fee and funding proposals of the Executive, your Subcommittee fashioned fee legislation that was later enacted. That solution was to approve the Administration's request for fee increases, but only to the extent that the Administration indicated that those addition funds were needed and would be made available for PTO funding. We recommend that you lead the Congress on a similar course of action in the present circumstances.

Sincerely,



Mark T. Banner
Chair
Section of Intellectual Property Law

cc: Honorable F. James Sensenbrenner
Honorable John Conyers
Robert D. Evans
Lillian B. Gaskin
IPL Section Officers

PREPARED STATEMENT OF THE BIOTECHNOLOGY INDUSTRY ORGANIZATION

SUMMARY:

The Biotechnology Industry Organization (BIO), the trade association for more than 1,100 biotechnology and biopharmaceutical companies, academic institutions and related organizations strongly supports a vibrant and effective system of intellectual property protection. Intellectual property is essential to securing the benefits of biotechnology for our society. Strong and predictable patent protection enables the flow of investment capital that is vital to achieving biotechnology's promise.

BIO supports the efforts of the Administration to strengthen and improve the patent system, to ensure adequate funding for the operations of the Patent and Trademark Office (PTO), to avoid diversion of funds to nonpatent purposes, and to improve the quality of both patent examination and issued patents. BIO can support an increase in patent fees provided that it is accompanied by realistic and effective means to prevent diversion of funds. In addition, for the reasons outlined below, BIO believes that the committee should effectively link "unity of invention" reform to enactment of a fee bill. The testimony concludes with suggestions on how to achieve these goals.

Background:

BIO represents many different entities and interests, including start-up biotechnology companies, universities, state biotechnology centers and related groups. All of BIO's members share the goal of improving the human condition through the delivery of new products, goods or services flowing from biotechnology. Before most inventions can become commercially available, years of work and millions of dollars of investment capital are required to secure the necessary approvals or to complete adequate testing. This commercialization relies on the premise that the originator of an invention should be protected against copying by imitators. BIO is an advocate of a highly effective and patent system that functions well to secure this protection. Quality examination and review that produces strong and enforceable patents of an appropriate scope and duration is an essential condition to creating the biotechnology industry's platform of success.[1]

There is little doubt that the current American patent system has many strengths. Our patent system has shown remarkable resilience and flexibility in dealing with new technologies. Our system, however, requires replenishment with new ideas and new funds to secure improved results. For that reason, BIO supports the broad goals of the Administration's 21st-Century Strategic Plan.[2] This thoughtful document outlines many worthwhile reforms aimed at further improving the quality of patent examinations, the review patent applications receive in complex cases, and the strength of issued patents. While BIO believes a strong case can be made for increasing the financial resources at the Patent and Trademark Office to achieve these worthwhile goals, we look forward to seeing the details of how the PTO plans to do it.

Diversion of Funds from the PTO:

The challenge for all policy-makers in this field, however, is to provide adequate resources for the vital operations of the Patent and Trademark Office without diverting to other governmental functions fees that the PTO has collected from patent applicants. At present there is no effective mechanism for ensuring that diversions will not continue, even though the PTO insists that it wishes to avoid diversion. BIO is concerned that the pending fee bill[3] does not yet contain sufficient safeguards to prevent diversion of funds. The failure of the bill to address the source of the most significant problem facing the office could undermine the very goals of the strategic plan.

This committee is fully familiar with the issue of diversion and has attempted over many, many years to end this practice. BIO defers to the wisdom of the committee on how best to achieve this shared goal. It might be possible to link the achievement of improved outcomes within the PTO to authorization of fee increases. As the President noted when he signed the most recent reauthorization of the Pre-

---

[1] In 2000, approximately 21,800 biotechnology-related patent applications were filed with the U.S. Patent and Trademark Office. See Jeff Donn, "As Disease-Causing Genes Are Discovered, the Rush to the Patent Office Grows," AP Newswire, Aug. 21, 2001. In all categories, a total of 21,671 patent applications were filed in 1880. U.S. Patent Activity, Calendar Years 1790–2001, at *http://www.uspto.gov/web/offices/ac/ido/oeip/taf/h—counts.htm.*

[2] U.S. Patent and Trademark Office, the 21st-Century Strategic Plan (Feb. 3, 2003), available at *http://www.uspto.gov/web/offices/com/strat21/stratplan—03feb2003.pdf.*

[3] United States Patent and Trademark Fee Modernization Act of 2003, H.R. 1561, 108th Cong. (2003), available at *http://www.uspto.gov/web/offices/com/strat21/feebill.htm.*

scription Drug User Fee Act (PDUFA), the practice of linking fees to reform (with concrete metrics like timeliness of reviews and achievement of management goals) can be a powerful incentive to secure goals in the public interest.

Restriction Practice/Unity of Invention:

One component of a valid strategic plan for the patent system in the United States should be the immediate, and rapid, review and implementation of reforms to the restriction practice currently used in the U.S. patent system.[4] In its strategic plan, the PTO has pledged to work with other patent offices to develop a workable international framework for these reforms, including movement toward the international examination system often called "unity of invention." While the PTO has agreed to implement unity of invention as part of its long-term agenda, it's current proposal does not seek the statutory authority to secure that goal. The PTO appears willing to submit legislation to implement changes in this area in the future but has not clearly committed to do so within a definite timeframe. While those steps are commendable, BIO believes that steps to address problems related to "unity of invention" should be taken now, in conjunction with implementation of a fee bill.

What exactly is unity of invention? In its simplest terms, it is the idea that a single invention should be filed and reviewed—and, as appropriate, issued—without being unnecessarily broken into multiple component parts. This approach to patent examination is, for the most part, already in effect in most patent offices around the world (e.g., the European Patent Office,[5] and the Japanese Patent Office[6]) either directly or as a result of the Patent Cooperation Treaty.[7] The United States currently generally follows this practice in its handling of international applications filed under the Patent Cooperation Treaty. The United States should take steps to implement a unity of invention examination system that is in harmony with these other offices.[8]

Adopting a practice that allows biotechnology companies to keep related features of a single invention together in a single application will greatly facilitate the process of examining these applications. It will also significantly reduce the administrative workload of the PTO. Unlike the rest of the world, the PTO traditionally separates claims even though they are directed at one particular invention. Using the biotechnology sector as an example, the PTO currently separates claims directed at as a single DNA sequence, the protein that DNA sequence encodes and antibodies that bind to the protein into different inventions. As a result, applicants are required to prosecute what should be considered one application as multiple applications. The current restriction practice of the PTO (the practice of imposing limits on the scope of what can be examined in a single application), especially in biotech-related groups, produces unnecessary filings, work and complications for both the

---

[4] Restriction practice is a workload management tool employed by the PTO. Under the authority of 35 U.S.C. 121, the office may require an applicant to "restrict" the examination of the application to a single "independent and distinct" invention. If the finding is that the application contains more than one independent and distinct invention, the PTO requires the applicant to file an additional application to permit examination of the second or third "invention." Doing so allows the office to collect an additional set of fees, and gives the patent examiner an additional time credit.

[5] See, for example, Convention on the Grant of European Patents (European Patent Convention) of October 5, 1973, Art. 82 "Unity of Invention" ("The European patent application shall relate to one invention only or to a group of inventions so linked as to form a single general inventive concept."), available at *http://www.european-patent-office.org/legal/epc/e/ma1.html#CVN.*

[6] See, for example, Japan Patent Office, Examination Guidelines for Patent and Utility Model in Japan, ch. 2 "Requirements for Unity of Application" (Dec. 2000) and Japan Patent Law, Section 37 (Law No. 121 of April 13, 1959 as amended by Law No. 220 of December 22, 1999), available at *http://www.jpo.go.jp/quick—e/index—tokkyo.htm.*

[7] Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645, 1160 U.N.T.S. 231, available at *http://www.wipo.org/pct/en/.*

[8] The current discretionary practice of dividing a single invention into multiple applications has a great impact on start-up biotechnology companies. Biotechnology patent applications experience the PTO's restriction practice more than any other sector of the U.S. economy. This is because biotechnology inventions are complex and the law is still developing in this area. In order for a biotechnology inventor to obtain the best possible coverage for her inventions, she must submit an application that touches on several aspects of a single invention. Although these aspects are related, the PTO divides these aspects into many different groups, forcing a biotech inventor to file multiple applications on what is in reality a single inventive concept. Each application requires additional fees and costs for the party prosecuting the application such as patent counsel as well as cost in time for the applicant's attention. Two applications multiply the cost by two; 10 applications multiply the cost by 10, etc. So when an examiner divides one application into several applications, the costs multiply accordingly.

PTO and applicants.[9] Simplifying this process would significantly improve the examination system. We recognize that the PTO, in the case of multiple inventive concepts in a single application, may appropriately demand the applicant to elect to either pay additional fees or file separate or divisional applications to obtain examination of related inventions that are presented in a single application. The fees that should be applied in these instances should be proportional to the additional work implicated by the consolidation of the related features of the invention in a single application. BIO believes, however, that the use of scores of "restrictions" on non-DNA sequence patents, or literally hundreds and hundreds of "restrictions" on DNA sequence patents, is unfair and should be ended.[10]

BIO members are most frequently start-up firms with limited capital. The imposition of PTO "restrictions" that, in effect, divide a single application into so many parts causes prosecution of a single invention to become prohibitively expensive. This result deters investment in biotechnology and unfairly discriminates between firms solely based on their ability to bear the costs of patent prosecution. Addressing these "restriction practice" issues is a high priority for the biotechnology industry.

Linkage:

As the committee knows, BIO has previously expressed concern about the magnitude of any fee increase and its impact on the small businesses that are the bulk of BIO members. Today we are concerned that the PTO's plans for implementing its fee proposal will create uncertainty that is harmful for our members. Until the PTO's current restriction practice is replaced with unity of invention, applicants have no way of fully assessing the impact of the proposed fee increase. As the proposal is currently structured, Congress may be asked to consider fee legislation twice within a one- or two-year period of time: once in a fee bill and again in an amendment to take into account changes in PTO practice around what constitutes a complete patent application (that is without undue restrictions).

Currently, the Administration is asking the Congress to pass fee legislation while promising to submit unity of invention legislation later in the 108th Congress. This two-step process should be combined. Unless the biotechnology industry knows how the PTO's fees will be implemented it cannot determine the net effect of a fee bill, especially on small and medium entities and BIO's nonprofit members. Without full consideration of a unity of invention reform measure, BIO cannot effectively gauge the impact on its members because it cannot know in advance how the PTO will divide up, or treat, its applications.

There are several ways in which the committee could achieve linkage of the two fee-related issues. First, the Congress could enact a one-year bill fee in the form of a surcharge bill and return to the fuller fee reform proposal later along with unity of invention legislation. Second, the Congress could consider, on the merits, changes to fees that would reflect an examination model that permits consolidation of related

---

[9] Restriction practice refers to the way that the PTO determines how many claims it will consider as a single application. When a patent is submitted, historically the PTO would often respond with a "restriction requirement," which separated claims into groups according to their similarity with each other. In biotech patents, this often meant that, for example, all diagnostic claims would be grouped into one "divisional application" and all therapeutic claims would be grouped in to another divisional. This resulted in the applicant filing two or more, but a small number, of separate patent applications. This policy has recently changed, however. The PTO is now restricting gene patents into large numbers of divisional applications. This results in an unmanageable number of individual patent applications, with associated unreasonable filing costs. One BIO member, a small diagnostics company, recently had an application restricted into more than 40 separate divisional applications. The governmental costs alone for this technology would be over $300,000.00, assuming the patents issue. This cost figure does not include attorney costs or any other costs associated with filing these applications.

Another biopharmaceutical member recently had an application restricted into more than 900 separate divisionals. The company would therefore be forced to decide which applications it is capable of pursuing, leading to incomplete protection of its inventions.

[10] Small biotechnology companies experiencing this practice are unable to cover the whole of their invention. As an example, for one small biotechnology company, the PTO divided a single application into over 20 groups. In order to obtain coverage for a single invention, the biotechnology company would have to pursue over 20 applications. For a small company, the cost of 20 applications for a single invention is prohibitive. The company would, therefore, be forced to decide which application it is capable of pursuing, leading to incomplete protection of its inventions.

Under unity of invention practice, any inventor can pay up front to have the PTO review a number of claims in the same application instead of dividing the claims into numerous applications. This can make a significant difference in the ability of a company with limited resources, such as a small biotech start-up company, to protect all aspects of its inventions. Under the current practice in the PTO, this is not possible without exorbitant fees.

features of an invention rather than separate application with separate applications fees.

Finally, the committee could adopt an amendment that would mandate a review of the fee bill one year after enactment. In the event that no unity of invention reform was in effect then, the fee reforms proposed for future years would be held in abeyance until such a measure was implemented.

CONCLUSION:

BIO supports efforts to strengthen the patent system of the United States. The Administration deserves abundant praise for its efforts to secure a strategic plan to achieve that result. The Department of Commerce and the Patent and Trademark Office understand and support the efforts of Congress and others to prevent diversion of patent fees. BIO remains concerned, however, that sufficient safeguards are not yet in place to prevent the diversion of patent fees. Finally, BIO urges the Congress to take steps to make sure that unique interests of the biotechnology industry, especially those relating to unity of invention, are fully and completely dealt with in the legislative process.

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

April 12, 2003

Honorable Lamar Smith, Chair
House Subcommittee on Courts, the Internet
And Intellectual Property
B351A Rayburn House Office Bldg.
Washington, D.C. 20515

Honorable Howard L. Berman, Ranking Member
House Subcommittee on Courts, the Internet
And Intellectual Property
B336 Rayburn House Office Bldg.
Washington, D.C. 20515

Re: Hearing on HR 1561,
USPTO Fee Modernization Act of 2003

Dear Sirs,

On April 8, 2003, Mr. Berman transmitted a number of additional questions for the witnesses who were present at the hearing on April 3, 2003. On behalf of the Patent Office Professional Association (POPA), we submit the following responses to Mr. Berman's questions.

Question 1. Explain why it is important, from a quality perspective, to have the examination and search done together by the examiner?

Answer: The prior art search and patent examination are integral parts of the same process. There is a synergy between the two functions that will be lost if search and examination are separated. As a patent examiner performs a prior art search on a patent application, the examiner is simultaneously becoming familiar with the state of the art in the subject matter of the application, identifying additional relevant search terms, modifying the search in response to preceding search results, and mentally formulating rejections to apply to the claimed invention. Thus, when the examiner prepares to take action on the case, much of the decision making process has already been completed.

Outsourcing the search function will hurt patent quality. Examiners' expertise is continuously refreshed through the significant amount of time examiners spend searching the patent and non-patent literature in their assigned area of technology. The expertise of examiners will be diminished rather than enhanced by separating the search from examination.

Private sector searchers are not as likely to be qualified to search as patent examiners. Patent examiners are specialists in a relatively narrow area of technology. Commercial searchers will most likely be generalists because there is only one USPTO but there will be multiple, competing search firms. Only the USPTO will have the volume of work to allow the current level of examiner specialization. Only the USPTO has certain search resources, such as a set of foreign patents prior to 1995 that have been classified according to the U.S. Patent Classification system. Most importantly, examiners are knowledgeable in patent law and thus trained to identify references that can be legitimately combined under the law.

During the question and answer portion of the April 3, 2003, hearing, Director Rogan said that European Patent Office President Ingo Kober, in a letter, stated that EPO's current change to combining search and examination was done only for efficiency, not for quality. "They did it for productivity reasons," said Director Rogan. This is an inherent admission that combining search and examination in one job is more productive. The money then saved through this efficiency can be used to increase quality by hiring more examiners and giving them more resources so that additional search time can be spent on each patent application.

With the total outsourcing of searching, the USPTO intends to disallow virtually all search time for examiners and to curtail maintenance of search tools. An intrinsic aspect of examination is the need to update searches and deal with revised claim subject matter. Stripping examiners of virtually all search time will reduce quality by forcing decisions to be based solely on the original search. Further, patent examiners will not be able to determine if a search is "complete" without conducting searches themselves. They will not be able to conduct supplemental searches as appropriate when the search tools they use today are no longer available or properly maintained.

Examiners currently have the ability to utilize searches provided by applicants in the form of Information Disclosure Statements (IDS) and/or International Search Reports (ISR) provided by a foreign patent office. Examiners routinely review these documents when they are provided in a patent application. Experience has shown, however, that the prior art provided in these documents is seldom sufficient for examination purposes.

This fact has been publicly recognized at a discussion of the USPTO 21st Century Strategic Plan sponsored by the National Academy of Sciences last August. Charles Van Horn, a partner in the law firm of Finnegan, Henderson, Farabow, Garrett & Dunner and a former senior executive at the USPTO, explained that foreign searches won't meet the requirements for a U.S. examination.

POPA has surveyed its membership on the wisdom of separating search and examination, as well as the adequacy of prior art submissions from applicants and from foreign patent offices. The results of the survey were attached as Appendix 2 in the formal written statement submitted prior to the hearing on April 3, 2003.

Ninety five percent (95%) of examiners do not believe they will be able to issue valid patents and protect the public from unwarranted patents without doing the search themselves.

When asked the following: "In new applications where an IDS (information disclosure statement) is filed, approximately how often do you need to apply additional references when making a rejection in the application," ninety one percent (91%) indicated that they need to apply additional art "almost all the time" (74%) or "most of the time" (17%). Only two percent (2%) said they "almost never" need to apply additional art.

Similarly, when asked the following: "In new applications containing foreign search reports, approximately how often do you need to apply additional references when making a rejection in the application," ninety two percent (92%) indicated that they need to apply additional art "almost all the time" (69%) or "most of the time" (23%). Only two percent (2%) said they "almost never" need to apply additional art. These last results clearly illustrate the fact that U.S. patent laws require analysis and application of prior art in patent applications in a significantly different manner than do foreign patent laws.

Separating search and examination will inherently create a bias toward granting more patents rather than providing a mechanism by which one can weed out patent applications that should be rejected. This is the opposite of the cure that is necessary to overcome the public's perception of the need for improved patent quality, which is based upon the issuance of too many patents, not too few. Meaningful enhancements to quality patent examination will only come when examiners are given more time per application and better search tools.

Question 2. To what extent did you or POPA participate in the development of the Strategic Plan?

Answer: **WE WERE NOT GIVEN ANY OPPORTUNITY TO PARTICIPATE IN THE DEVELOPMENT OF THE STRATEGIC PLAN ISSUED JUNE 3, 2002!** Just as significantly, to the best of our knowledge, neither first line supervisors nor most of the senior executive staff in charge of the Technology Centers, were given the opportunity to participate in the development of that plan.

Since that time, the union has entered into negotiations with the agency regarding the impact and implementation of the quality initiatives that are included in the plan. In those negotiations, the agency has made it abundantly clear that they are not interested in

the union's suggestions as to any possible alternative quality initiatives or any substantive modifications to the initiatives that were proposed.

Question 3. What is the accurate and current status of the EPO with respect to separation of search and examination functions?

Answer: It is our understanding that currently approximately half of the applications in the EPO are examined pursuant to the BEST program in which examination and search are conducted by the same examiner. This understanding is derived from information communicated to POPA officials during a visit to the EPO offices in The Hague and Munich in May 2002.

According to Mr. Ingo Kober, President of the EPO, examination will be "full BEST" in 2005. This information was provided in the "Report on the 89th meeting of the Administrative Council of the European Patent Organisation" held June 4-7, 2002, in Stockholm, Sweden, and published in the Official Journal EPO, Vol. 8-9/2002, page 418. This document is available on the web site of the EPO. (http://www.european-patent-office.org/epo/pubs/oj002/08-09_02/index.htm).

Thank you for the opportunity to present our views.

Sincerely,

Ronald J. Stern, President
Patent Office Professional Association
(703) 308-0818

President
John K. Williamson
PPG Industries, Inc.
Vice Presidents
J. Jeffrey Hawley
Eastman Kodak Co.
Harry J. Gwinnell
Cargill, Inc.
Treasurer
Robert P. Hayter
United Technologies Corp.

Directors
Marc S. Adler
Rohm and Haas Co.
Frederick T. Boehm
IBM Corp.
Eduardo M. Carreras
Coca-Cola Co.
Angelo N. Chaclas
Pitney Bowes Inc.
Howard N. Conkey
General Motors Corp.
Mark Costello
Xerox Corp.
William J. Coughlin
Ford Global Technologies, Inc.
Dan Crouse
Microsoft Corp.
Gerald V. Dahling
Aventis Pharmaceuticals, Inc.
Beverly M. Dollar
ConocoPhillips
Marc D. Feldman
Sun Microsystems, Inc.
Stephen P. Fox
Hewlett-Packard Co.
Scott M. Frank
BellSouth Corp.
Gary C. Ganzi
United States Filter Corp.
Andy Gibbs
PatentCafe.com, Inc.
Michael L. Glenn
Dow Chemical Co.
Bernard J. Graves, Jr.
Eastman Chemical Co.
Gary L. Griswold
3M Innovative Properties Co.
John M. Gunther
EMC Corp.
Jack E. Haken
Koninklijke Philips Electronics N.V.
Stephen D. Harper
Henkel Corp.
William B. Herring
Caterpillar, Inc.
Dennis R. Hoerner, Jr.
Monsanto Co.
Philip S. Johnson
Johnson & Johnson
Wayne A. Jones
SAP A.G.
Mark P. Kessler
JP Morgan Chase & Co.
Charles M. Kinzig
GlaxoSmithKline
Michael K. Kirschner
Amgen, Inc.
Richard F. Lemuth
Shell Oil Co.
Michael L. Lynch
Micron Technology, Inc.
Jonathan P. Meyer
Motorola, Inc.
Steven W. Miller
Procter & Gamble Co.
Raghunath S. Minisandram
Seagate Technology, LLC
Ronald E. Myrick
General Electric Co.
IPO Immediate Past President
Douglas K. Norman
Eli Lilly and Co.
Richard F. Phillips
ExxonMobil Corp.
Sanjay Prasad
Oracle Corp.
Peter C. Richardson
Pfizer, Inc.
Mark L. Rodgers
Air Products & Chemicals, Inc.
Robert R. Schroeder
Mars Incorporated
David Simon
Intel Corp.
Frank J. Sroka
BP America, Inc.
Mark T. Starr
Unisys Corp.
Brian W. Stegmon
BASF Corp.
Louis J. Virelli, Jr.
Unilever
Michael Walker
E.I. DuPont de Nemours & Co.
General Counsel
Charles R. Work
McDermott, Will & Emery
Executive Director
Herbert C. Wamsley

Intellectual Property Owners Association

April 16, 2003

Hon. Lamar Smith
Chairman
House Subcommittee on Courts, the Internet,
and Intellectual Property
B-351-A Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

This is in reply to your letter of April 9 submitting three questions that Representative Hart indicated she would like to have answered for the record. For convenience, the questions are reproduced below, followed by our replies.

1. Director Rogan believes that a sunset provision would create an "unacceptable level of uncertainty" for the agency. How do you propose that the agency solve the problem of hiring 1,800 patent examiners and enter into contracts when the funding to support those hires and contracts is scheduled to end in three years? Do you know of any analogous sunset to the funding of a federal agency or a member company or law firm in your respective organizations?

REPLY: We are concerned that the fee diversion problem will not be appropriately addressed in the next three years. If the appropriators decide to divert the additional funds raised by the legislation to unrelated government programs, it will cause the strategic plan to fail. The USPTO will not be able to hire the 1,800 patent examiners or enter into contracts. While a sunset provision may introduce some additional uncertainty about USPTO funding, funding for the USPTO, like other government agencies, is not certain today. The USPTO does not know what funding it will have each year until the appropriations bill is enacted. The level of appropriations can be affected by diversion and by changes in USPTO workload. Uncertainty in funding three years in the future is a way of life for most IPO member companies. Funding in industry is often governed by company sales and profitability, and funding is reviewed periodically with the possibility that it may be reduced. We support the sunset provision because we believe it would give USPTO managers a strong incentive to achieve measurable goals on schedule under the new plan and might help deter diversion of funds that could cause the USPTO to fall behind schedule. Moreover, a downward adjustment of fees might be warranted after the third

1255 Twenty-Third Street, NW, Suite 200 • Washington, DC 20037-1174
T: 202-466-2396 • F: 202-466-2893 • E: info@ipo.org • W: www.ipo.org

year if electronic processing of patent and trademark applications improved productivity and reduced USPTO operating costs.

2. It is clear that the Administration and the members of the Judiciary Committee have gone a long way to address the issue of diversion. Such efforts must be accompanied by a push from those most affected by the performance of the USPTO – those in the user community. Please outline the steps you have taken and intend to take to communicate your members' concerns about the practice of fee diversion to policy makers in Congress and the Administration.

REPLY: While the current Administration and the Judiciary Committee have rhetorically attacked fee diversion, the fact remains that the Clinton and Bush Administrations have recommended $482 million in diversion in the four most recent budgets and the Judiciary Committee has been unable to find a legislative solution to diversion despite its continuous practice for over a decade. For several years IPO has strongly urged the Administration and the members of the Appropriations and Judiciary Committees to address the diversion issue. Indeed, the fee diversion issue is our number one legislative priority. We have availed ourselves of all the usual means to communicate our members' concerns about diversion. These have included testimony at annual USPTO oversight hearings of the House Subcommittee, hundreds of visits to Administration officials, members of Congress and Congressional staff, and a campaign to educate IPO members and the public at large about the consequences of fee diversion. IPO has urged its members to communicate with the Administration and Congress through company headquarters, regional managers, rank and file employees, and government affairs offices. In addition, IPO serves as the secretariat for the 21st Century Intellectual Property Coalition, a group of companies and associations interested in USPTO fees and funding that has made many contacts with the Administration and Congress. We intend to continue all of these steps. But until the Administration and Congress cease the practice of including fee diversion as a component of the annual budget, none of these efforts can be successful.

3. Do you believe that the current searches carried out by the USPTO are of an equivalent quality to those of our trading partners such as Europe and Japan?

REPLY: We believe USPTO patent quality is deficient. One of the most important facets of quality is the thoroughness of searches conducted to find the most relevant prior art. A majority of IPO members feel the patent searches conducted by the European Patent Office are generally better than those conducted by the USPTO. We do not have sufficient information to make a judgment about the comparative quality of USPTO and Japanese Patent Office searches. The goal for the USPTO should not be to achieve equivalent quality in patent searching to our trading partners, but to make USPTO searches the best in the world.

Intellectual Property Owners Association

Thank you again for the opportunity to testify before the Subcommittee on April 3.

Sincerely,

John K. Williamson
President

Cc: Hon. Melissa Hart

AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 JEFFERSON DAVIS HIGHWAY * SUITE 203 * ARLINGTON, Virginia 22202

April 14, 2003

The Honorable Howard L. Berman
Subcommittee on Courts, the Internet, and Intellectual Property
United States House of Representatives
Washington, DC 20515

Dear Congressman Berman:

Thank you for the questions regarding the proposed fee bill, HR 1561, and the PTO's 21st Century Strategic Plan. I have answered the two questions you asked of John Williamson and me and the one question you asked of all witnesses. I would be pleased to amplify my answers or to respond to any other questions you might have.

Questions For Mike Kirk and John Williamson

1. With respect to ending diversion, have you individually or any one from the AIPLA/IPO discussed with the CEOs of the corporations you represent, how crucial it is for them to actively lobby the appropriate appropriators on the diversion issue? What is your willingness to do so?

Response: I have not spoken to the CEO of a corporation regarding lobbying to end the diversion of fees paid by PTO users. AIPLA is a membership association of individual patent, trademark, and copyright lawyers, not a membership association of companies. However, some AIPLA members employed by smaller companies have indicated in the past that they would be willing to ask their CEOs to weigh-in on the diversion issue. If a serious concerted effort could be launched legislatively to permit the PTO to retain and use all of its fee revenue, AIPLA would be very willing to urge our members, both in corporate and private practice, to contact their Representatives and to ask their corporate superiors and clients to do the same.

2. To what extent is AIPLA/IPO comfortable with the use of external searches? What effect do you anticipate this will have on patent quality?

Response: As we have stated in our testimony before the Subcommittee on July 18, 2002 and on April 3, 2003, if the Appropriation Committees would allow it, we would prefer that the PTO not be forced to resort to using private search contractors for U.S. origin applications. This requires two people to read and understand the application and its claims for processing in the PTO, an obvious duplication of effort. At the same time, however, we have urged the PTO to take advantage of International Search Reports under

the Patent Cooperation Treaty that are prepared by qualified International Search Authorities. We believe that the use of such searches could significantly assist U.S. examiners in their examination work and could lead to more efficient processing of applications. The same could be said for searches of foreign counterpart applications coming from foreign patent offices which the PTO found to produce quality searches. But the majority of applications filed in the PTO are from U.S. applicants. Also, both the lack of quality and timely availability of searches from many foreign patent offices render them useless for use by the PTO as it returns to its traditional goal of 18-month pendency.

With regard to the impact of external searches on patent quality, this will depend initially on how well the PTO conducts its pilot projects and tests with contractor search services, International Search Authorities, and foreign patent offices. In theory, it is possible that highly qualified external search sources could be identified and used under the continuing close supervision of the PTO, but we will not know this until the piloting and testing phases for such sources have been completed and a history of close supervision by the PTO has demonstrated the effectiveness of contractor searches. Should the pilots and testing show that contractor searches will not achieve the quality examination we seek or will result in an unacceptable increase in costs or pendency, there will be no option but to request the appropriators to reconsider their opposition to increasing the number of patent examiners. In any event, the PTO will have to find another alternative if the patent system is to continue to function effectively.

Question For All witnesses

1. What is the accurate and current status of the EPO with respect to separation of search and examination functions?

Response: The EPO traditionally conducted a search of patent applications at its office in The Hague and an examination of applications at its office in Munich. The search is (still for a transitional time) conducted by a search examiner in The Hague and published with the application 18-months from the filing date of the application. If the applicant requests the grant of a patent within six months of the publication of the application, the application is examined by a patentability examiner in Munich. If the patentability examiner determines that a patent should be granted, that determination is reviewed in the Munich office by the examiner and two other individuals before a patent is actually granted.

The decision to consolidate search and examination under one examiner (Bring Examination and Search Together – BEST) was prompted by the need to enhance the efficiency of the EPO's patent operation. The EPO is convinced that, by having the same examiner both search and examine an application when it is taken up for action, it can achieve enhanced efficiency by avoidance of duplication of work (e.g., two examiners currently needing to read the application documents) and that the quality should actually improve.

Presently, approximately 65% of the EPO's examiners are trained or are training in BEST. The EPO hopes to achieve 85% trained or in training by 2004, and 100% by 2005, for those search examiners who can be trained. The examiners trained and training in BEST procedures will engage in a pilot project beginning in June of this year. Under this pilot, the BEST trained examiners will search and examine applications prior to the 18th month from the date the applications are filed. The examination report, however, will not be published with the application and search report at 18 months, but it will it be made available to the public at that time and will be sent as a service to the applicant. Applicants may opt out from the project if they wish and in this case the examination report will not be made available to the public. Should the applicant request grant of a patent, then the examination report (if negative to grant) will be used as a first

communication to the applicant to allow the applicant to modify the claims and argue for grant. If the initial report is positive to grant, then the application will be subjected to the three person review mentioned above.

(This information was obtained from Colin Philpott of the European Patent Office on April 9, 2003.)

Sincerely,

Michael K. Kirk
Executive Director

AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
2001 JEFFERSON DAVIS HIGHWAY * SUITE 203 * ARLINGTON, Virginia 22202

April 14, 2003

The Honorable Lamar Smith
Chairman
Subcommittee on Courts, the Internet, and Intellectual Property
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the American Intellectual Property Law Association, I am pleased to respond to the written questions submitted by Representative Hart pursuant to the Subcommittee hearing last week on H.R. 1561. If either you or Representative Hart has any additional questions, we would be more than pleased to attempt to answer them. I am also attaching a copy of our response to questions received from Congressman Berman's office.

1. Director Rogan believes that a sunset provision would create an "unacceptable level of uncertainty" for the agency. How do you propose that the agency solve the problem of hiring 1,800 patent examiners and enter into contracts when the funding to support those hires and contracts is scheduled to end in three years? Do you know of any analogous sunset to the funding of a federal agency or a member company or law firm in your respective organizations?

Response: There are several reasons why we believe a "sunset" provision would not have the adverse consequences ascribed by the PTO:

- the PTO must seek an appropriation from Congress each year. It has no guarantee that it will receive a specific level of funding from one year to the next. In FY 1998, the President's Budget projected fee revenues of $748 million, with $92 million diverted, or some 12.2%. In fact, the PTO actually received $890 in fee revenue in FY 1998, of which $200 million were diverted. This represented a 22% diversion of fee revenue that the PTO sorely needed to process the patent and trademark applications filed that year. The PTO and its contractors always have to factor the uncertainty of the appropriation level into their plans and the sunset does not change that.

- the sunset AIPLA proposes would end the fee increase in three years only if Congress allowed it to because the Executive Branch failed to continue to make progress in reducing diversion. AIPLA and the other user groups that favor a sunset provision do so because we wish to provide an incentive to the Executive Branch to stop diverting user fees so that the PTO will not in the

future experience a 22% diversion as they did in 1998. We want the Executive Branch to continue to reduce diversion from the $100 million level proposed for FY 2004 to zero in future years.

- should progress to end diversion not be continued in future years, the PTO's plans to hire 1800 examiners and enter into contracts will not be realized in any event because it will not have the funds to do so. If diversion continues to decrease so that the PTO can hire the examiners and enter into the contracts it needs, AIPLA will lead the charge in requesting that the fee increase in HR 1561 be continued.

- the Prescription Drug User Fee Act, originally enacted in 1992 and extended twice since, represents an accord between pharmaceutical firms and Congress in which the firms agree to pay significant increases in fees to the Food and Drug Administration, provided that they are additive to FDA's baseline appropriations and are dedicated to the drug-review process. Not only is the FDA's authority to collect fees contingent on FDA's appropriations being equal to or greater than the 1997 total adjusted for inflation, but this authority has been sunset to expire five years from the date of enactment or re-enactment three times, most recently in 2002. The fact that FDA and Congress have avoided this from occurring is testament to the proper functioning of a sunset provision.

2. It is clear that the Administration and the members of the Judiciary Committee have gone a long way to address the issue of diversion. Such efforts must be accompanied by a push from those most affected by the performance of the USPTO – those in the user community. Please outline the steps you have taken and intend to take to communicate your members' concerns about the practice of fee diversion to policy makers in Congress and the Administration.

Response: As we noted in our testimony, over $650 million have been diverted from PTO user fees to other unrelated government programs since the inception of this practice. Had the Executive Branch been able to divert the levels of PTO user fees it proposed in fiscal years 2001, 2002, and 2003, there would have been an additional $67 million diverted in 2001, an additional $174 million diverted in 2002, and (based on current estimates) $140 million in 2003. Hence, apart from the steps taken this year, it is not clear that, in the past twelve years, the Executive Branch has gone "a long way to address the issue of diversion." We certainly agree, however, that all parties must work together to reduce, and ultimately eliminate, diversion. To that end:

- AIPLA joined with its sister IP associations to express the opposition of the user community to diversion in separate meetings with then OMB Deputy Director Dorn and Secretary of Commerce Evans last fall.

- AIPLA testified before the House Appropriations CJS Subcommittee in April 1998, and submitted a statement in April 1999 expressing our opposition to diversion.

- Prior to the recent hearing on April 3rd, AIPLA testified before the House Subcommittee on Courts, the Internet, and Intellectual Property (or its predecessor) in March 1998, March 2000, April 2001, May 2001, April 2002, and July 2002 to express our opposition to diversion.

- We expressed our opposition to diversion to the former Chair of the House Appropriations CJS Subcommittee in 2000, to the current Chair in 2002, and with the CJS Subcommittee staff on a continuing basis in 2000 through 2003.

- We have discussed our opposition to diversion with Senators Hatch and Leahy several times over the last few years, most recently with Senator Leahy last month.

AIPLA will continue to encourage its members to speak-out to members of Congress to end diversion, but we do not believe that a statutory fee increase of patent and trademark fees should be approved by the Congress without some safeguard that the practice of diversion will not continue indefinitely irrespective of whether diversion is curtailed.

3. Do you believe that the current searches carried out by the USPTO are of an equivalent quality to those of our trading partners such as Europe and Japan?

Response: First, we note that we do not have empirical evidence regarding the relative quality of searches conducted by the three offices. In certain areas, we believe that searches conducted by the PTO are superior to those conducted by the EPO and JPO. Biotechnology, software and computer-related inventions, and telecommunications come to mind, possibly because U.S. law has been in the forefront in according protection to these kinds of technologies. On the other hand, anecdotal comments by AIPLA members with experience in all three offices suggest that searches conducted by the EPO in a number of technology areas are superior to those conducted by the PTO, but it must be borne in mind that the EPO has traditionally given its search examiners more time to conduct searches than U.S. examiners are generally given.

Sincerely,

Michael K. Kirk
Executive Director

UNITED STATES
PATENT AND
TRADEMARK OFFICE

Under Secretary of Commerce For Intellectual Property and
Director of the United States Patent and Trademark Office
Washington, DC 20231
www.uspto.gov

APR 23 2003

The Honorable Howard L. Berman
Ranking Member, Subcommittee on Courts,
the Internet and Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, DC 20515

Dear ~~Representative Berman:~~ Howard —

Thank you for forwarding written questions on Tuesday, April 8, 2003, as a follow-up to the Subcommittee's April 3 hearing on H.R. 1561, the "United States Patent and Trademark Fee Modernization Act of 2003". Your questions and our responses are enclosed.

Again, I wish to express my gratitude to you for joining Chairman Smith in introducing H.R. 1561. As I indicated, I strongly believe that enactment of the bill will enable the USPTO to achieve the quality, productivity and efficiency goals that we all share.

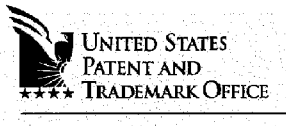
Rest assured that I look forward to working with you, Chairman Smith, all of your colleagues, and our stakeholders to address the concerns expressed at the hearing and continue to work on passage of the Fee Bill in the near future.

It is my hope that the enclosed responses are helpful. Please let me know if you need any further information or have additional questions.

Sincerely,

JAMES E. ROGAN
Under Secretary and Director

Enclosure



Under Secretary of Commerce For Intellectual Property and
Director of the United States Patent and Trademark Office
Washington, DC 20231
www.uspto.gov

APR 23 2003

The Honorable Lamar S. Smith
Chairman, Subcommittee on Courts,
the Internet and Intellectual Property
Committee on the Judiciary
House of Representatives
Washington, DC 20515

Dear Mr. Chairman: Lamar

Enclosed for your review is a copy of our response to Ranking Member Berman's written questions, received at USPTO on Tuesday, April 8, 2003, as a follow-up to the Subcommittee's April 3 hearing on H.R. 1561, the "United States Patent and Trademark Fee Modernization Act of 2003".

Again, I wish to express my gratitude to you for both introducing H.R. 1561 and scheduling the Subcommittee hearing. As I indicated, I strongly believe that enactment of the bill will enable the USPTO to achieve the quality, productivity and efficiency goals we all share.

Rest assured that I look forward to working with you, Ranking Member Berman, all of your colleagues, and our stakeholders to address the concerns expressed at the hearing and continue to work on passage of the Fee Bill in the near future.

Sincerely,

JAMES E. ROGAN
Under Secretary and Director

Enclosure

FOLLOW-UP QUESTIONS AND ANSWERS FOR THE HONORABLE HOWARD L. BERMAN

Question 1

I again commend your efforts in putting together this impressively lengthy and detailed strategic plan as it no doubt represents a tremendous amount of effort. However, it seems to me that any discussion of a fee increase or the detail of any substantive changes is premature without some mechanism in place to end the discussion of funds. Without an end to this practice, any increase in revenue would be prey for appropriators and would most likely not ever be available to fund the ideas contained in your plan. What steps have you or the administration of PTO taken, or intend to take with respect to stopping this practice? Are you and your office willing to solicit industry support and approach the Bush Administration and appropriators with a sincere lobbying effort to end diversion?

Answer*:*

As you know, "fee diversion" is a topic of great interest to many, including the patent community, independent inventors, and small businesses. You will be pleased to know that I have personally devoted a great deal of time and attention to bring this matter up at the highest levels of the Administration. As I stated in my written testimony before the Subcommittee:

> "The Administration shares these [″fee diversion″] concerns. President Bush cut the level of 'fee diversion' by nearly fifty percent from the FY 2003 Budget level in the Administration's FY 2004 budget request for our agency. Last month Commerce Secretary Don Evans addressed this topic while testifying before a subcommittee of the House Appropriations Committee. There he said 'the Department is working to eliminate the practice of using USPTO revenues for unrelated Federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued."

In my capacity as Under Secretary of Commerce for Intellectual Property and Director of the USPTO, I fully support the efforts under way by the Administration. I am confident that the Congress, including the Appropriations Committees, will use their best judgment, and support the President's Budget, as they consider agency funding during the annual appropriations cycle.

Question 2

Given the subjective nature of quality assessment, from a practical standpoint, lay out for me specifically *some of the main methods the PTO intends to use to both* assess quality *and to* determine the cause *of poor quality. What individuals or entities would be charged with this duty and how autonomous would they be from PTO Administration? To what extent was the entire Strategic Plan made available for review by the general public?*

Answer*:*

As I have previously testified twice before the Subcommittee, patent quality will always be the highest priority while I am at the United States Patent and Trademark Office (USPTO). Several years ago, you voiced concerns about Business Method Patents. My predecessor, Q. Todd Dickinson, instituted several quality initiatives in this technology area in response to such concerns. These included enhancing training for examiners, expanding the available patent literature for prior art, and a second level review (also known as the "second pair of eyes") prior to the approval of a patent. These initiatives have been well received by the patent community and have met with considerable success.

Under the 21st Century Strategic Plan, the USPTO will work to enhance the quality of patent examining operations through additional comprehensive quality assurance programs. For example, Patents will enhance the quality of its products and services by integrating various quality review programs into a single Quality Assurance Program in each of the Technology Centers, as well as expand the quality review of work products and improve the connection between the review findings and subsequent training. Patents will expand the in-process review to cover all stages of examination from first action to allowance or abandonment. The results of these reviews will be used to check the quality of work products during examination rather than after the fact, and determine examiner-training needs. Moreover, as part of our Plan, the USPTO will hire the people who make the best patent examiners, certify their knowledge and competencies throughout their careers at the USPTO, and focus on quality in all aspects of the examination of patent and trademark applications.

In summary, our number one priority is to emphasize patent and trademark quality and make it the primary focus of everything we do. The assessment of quality

lies with the most senior managers of the patent examining corps, but we also are now in the early stages of procuring private sector assistance in developing new, more objective metrics of quality.

The patent system is, to a great extent, established by Congress through statute. Currently, the examination of patents is a quasi-judicial function that rests solely with the USPTO and its highly trained ranks of examiners who possess scientific and engineering backgrounds. Under the Strategic Plan, this would continue. One long-standing check on the quality of patents is the participation in the system by third parties who raise issues in the Federal courts, which as you know are autonomous.

The Strategic Plan was developed in response to a specific mandate from Congress during the 107th Congress. Last summer, after a top-to-bottom review, the USPTO developed and submitted to the Hill our original Strategic Plan. That Plan was posted on the USPTO website for public comments. Answers to every question or comment have also been posted on the website. The House Judiciary Subcommittee on Courts, the Internet and Intellectual Property held on oversight hearing regarding this proposal. Additionally, the USPTO vetted both versions of the plan with numerous companies, inventor groups, trade associations and our two Public Advisory Committees. As a result of comments and criticism from the patent user community and the public, the USPTO developed the new version of the Strategic Plan. The revised Strategic Plan was developed and incorporates 95% of the old strategic plan. In February, a 17-page summary of the plan, the 37 action items, and the proposed Fee Legislation were posted to the USPTO website. In addition, your congressional office received a hard copy of these documents.

Question 3

Aside from diversion and changes to the fee schedule, in your opinion, what components of the strategic plan will require legislation? Would additional legislation be required to authorize the separation of search from the examination function or does the PTO have the authority in the absence of such specific legislation? Assuming for a moment that the search function was outsourced, what type of search would be talking about, at what stage in the application process would it occur and what materials (i.e. the abstract? the disclosure? the claims?) would be available to the entity conducting the search.

Answer*:*

A great deal of the revised Strategic Plan can be carried out administratively. However, the fee legislation is the key to many of the objectives that the USPTO is pursuing. For example, we need statutory authority to refund a portion of the search and examination fees when the applicant discontinues prosecution prior to either stage of processing. In addition to the revisions found in the fee bill, two examples of reforms that do require future legislation are the creation of a patent opposition system that would permit post-grant review and possible revisions to our unity of invention or restriction practice.

The USPTO already has the authority to split the search and examination functions. Under our Plan, the USPTO will forward copies of patent applications to search contractors to conduct the search. The contractor's work products will be monitored by the USPTO to ensure that the contractor is producing searches according to established requirements and are of sufficient quality. The USPTO will pilot the outsourcing of searches in FY 2004 to test the concept before a full scope implementation. For more detailed information on our search outsourcing proposal, please see the answer to Question #5 below.

As I indicated in my written testimony, the USPTO has already received more than 75,000 patent search reports from the European Patent Office pursuant to the Patent Cooperation Treaty (PCT) over the past few years. In addition, we have signed agreements with our Trilateral Partners to assess further the mutual exploitation of search reports for national and PCT applications. The fee legislation requires enumerating a separate search fee because this change will permit private contracting entities to search and necessitate a different type of fee.

The USPTO's FY 2004 proposed budget contains funding for a pilot for splitting search and examination activities, and the major administrative costs. We have requested $1.5 million to pilot the outsourcing of searches to prove the concept before changing the patent examination process. The pilot will focus on the outsourcing of PCT Chapter I search activities. The results of the PCT pilot will provide the Office with the information necessary to implement the best possible transition from examiner searches to contractor searches. During the pilot, the USPTO will determine the costs that will have to be paid to the commercial search services for conducting

these prior art searches. Upon successful completion of the pilot, the use of commercial search services for prior art search reports will be phased in over several years.

The most significant overhead component associated with separating the search and examination is monitoring the quality of the searches provided by the commercial search services. Under a separate initiative in the FY 2004 budget, the USPTO has requested $2.8 million to assess and monitor the quality of the searches provided by these commercial searching authorities. We also have requested $470,000 for system modifications needed to support the outsourcing of the PCT Chapter I search activity.

Question 4

What is the rationale for separating search and examination? I understand that doing so would allow the PTO to charge another fee, but what is the logic in terms of quality to separate these seemingly integral functions. Given that the examiners want to do the search and in fact consider it to be an integral component in their examination, should we not defer to their judgment when considering issues of patentability?

Answer*:*

As I explained in my written testimony, the USPTO and its sister patent offices throughout the world have considerable experience in splitting the two tasks of search and examination. Contrary to the assertion that quality suffers under such a structure, the reverse is true. During the April 3rd hearing, I entered into the record a letter from the President of the European Patent Office (EPO), Dr. Ingo Kober, which discusses Europe's experience in this area. While the EPO does not competitively source the search function, search and examination have been separated within the EPO for more than twenty years without any detriment to quality. In addition, please refer to the answer for Question #6 below.

Question 5

Your proposed fee schedule imposes a new "search fee". Under your plan, conducting the prior art search would be out-sourced to the financial detriment of the applicant. Have you provided in your plan and made available for critique the mechanics and economics involved in setting up the administrative infrastructure to implement and oversee the certification, compliance and quality of the entities conducting the search? Specific details please.

Answer*:*

The USPTO has obtained public comment on our plans and posted on our website for many months the answers to questions or suggestions we have received from the public, our patent examiners, and the professional associations with whom we have worked extensively. We recently published on our website a detailed action plan which describes our implementation approach. What follows are the highlights of the administrative structure and processes we are fully prepared to implement.

Traditionally, while the USPTO has always required applicants for a patent to pay for a search, that cost was bundled into the initial filing fee. The fee legislation breaks out a separate search fee because, in the future, that will reflect the cost to the applicant by the private search entity. We believe that ultimately competition in the marketplace will result in higher quality and more cost-effective searches. Additionally, we intend to refund the search fee component whenever we receive a search report from another certified industrial property office. This is the reason that the Plan permits the Director to set the fee in the future. The advantages of outsourcing provide benefits, rather than detriments, to all patent applicants. The outsourcing of a search to private entities is part of the President's Management Agenda.

To meet the requirements of our customers and to determine the feasibility of competitively sourcing search functions, the decision has been made to implement a proof of concept through a pilot program. We will assure quality of contractor performance through evaluations and continuous monitoring of the pilot.

The USPTO will use the contractors to prepare complete and accurate reports for patent applications. One or more contracts would be awarded. It is anticipated that there will be at least one contract specializing in each discipline. The contractor may be a private or commercial search entity with demonstrated expertise and search skills. The request for a search and the resulting search report are activities between the USPTO and the contractor.

The USPTO would administer the same preliminary processing procedures currently established for new application filings. A copy of the application would be forwarded to the contractor approximately three months prior to the examination. The contractor would perform a prior art search and prepare a report using PCT guide-

lines and USPTO search guidelines for additional non-patent literature (NPL) resources as stated above.

Upon completion of the report, the application would be forwarded to the Patent Technology Center to await review by the examiner. The examiner would then review the report and prior art cited. If the report was inadequate or if the examiner was personally aware of other prior art, the examiner could request time to search them, or have the report sent back to the contractor with an explanation of the deficiency and a request for supplemental information.

The USPTO would maintain the authority to certify that a private firm, individual, or commercial entity was capable of providing a valid, thorough, and complete search of the prior art for patent examination processes. A certification process would be done at the USPTO. The process could be given to firms or individuals or a combination thereof. The certification process may be based on industry specific criteria and be given on an individual basis based on the firm's or individual's qualifications. Similar to the Primary Examiner at the USPTO, a senior member of the firm could sign off on an "assistant's" search. Thus, while there are multiple options available, a preferred one would be to certify the "firm" which, in turn, would be responsible for certifying their individual searchers.

The critical measures of success would be determined based on the contractors' ability to: (1) determine if disclosed invention is subject to an international search; (2) identify a field of search that would cover the disclosed invention; (3) select the proper tools and art collections to perform the search; (4) determine the appropriate search strategy for each of the selected search tools and art collections; (5) search the art collections using the selected search tools and search strategy, and using any additional strategy suggested by the art that is found; (6) retrieve sufficient information from art that is identified during the search to evaluate the pertinence of the art; (7) select the prior art that is most pertinent to the claimed subject matter; (8) record the results of the art that is selected according to the criteria set forth in the guidelines; and (9) determine if certain claims are found to be searchable subject matter and/or lack clarity or distinctness.

The contractor would have to prove that it has ready access to the appropriate industry specific search tools. Much of the work in developing industry specific search tools is either in the process of being done or has already been published on the USPTO intranet in the form of Search Guidelines. These guidelines were developed by Quality Action Teams and represent a listing of appropriate search tools and databases for each technology. The guidelines include PCT Minimum Document requirements, appropriate text search systems, as well as the pertinent commercially available databases. In addition to using the established guidelines, a classified search using the U.S. Patent Classification system would also need to be performed, if appropriate.

Another requirement would be the technical qualifications of the contractors' staff. Just as in examining, varying levels of technical expertise are required for searching different technologies. In addition, the contractor would have to provide proof of a thorough understanding of the patent examining procedures and patent statutes. It is essential that any contractor have the ability to read and analyze claims, as well as broadly apply the prior art to produce a PCT-type search report, which would be submitted to USPTO. The contractor would need to be aware of patent law and practice and be able to understand such concepts as "motivation" for example. This could be ensured through testing requirements. Finally, the contractors' ability to provide timely reports would be essential to the program's success. Special attention would be paid to ensure treaty deadlines were enforced.

For proper examination and quality comparisons, a search submission would be expected to include, at a minimum, a listing for every search including: (1) text search systems; (2) commercial databases; (3) USPC classified search, if appropriate; (4) the complete search statement and logic; and (5) a statement regarding the teachings and applicability of each reference against each claim.

The USPTO also would have to maintain a "search quality review process" in order to "sample" the quality of searches submitted by the certified search authorities. A component of the in-process review activity is to evaluate the quality of the search results for each contractor. A statistically valid sample of cases would be reviewed using criteria such as whether the search was based on what is claimed and reasonably expected to be claimed. Additionally, an experienced examiner will conduct a separate search on the same application, to ensure the contractor used the proper search procedures.

The Office would retain the ability to terminate any contract and "de-certify" authorities that submit a number of poor searches from either the test sample or from other sources such as examiner reports, requests for re-examination or post-grant opposition that show clear errors.

It is possible that separate contractor support would be needed to set up, implement, and maintain the necessary certification procedures, along with a dedicated staff of search and examination experts.

Contractors may be required to supply certified translations or English language equivalents, with valid dates, for any non-English language prior art references cited, which would also eliminate the need for examiners requesting certified translations, partial translations and/or on-the-spot translations of non-English documents.

The USPTO recognizes that the use of contractors to provide prior art search and/or opinion reports for patent applications is a major change to current patent examination processes. The USPTO also understands customer concerns for excellence in a prior art search. To ensure quality art searches are maintained and that there is uninterrupted service to all USPTO customers, the Office would use the results of the PCT pilot as its foundation for competitively sourcing all other search activities within the Office. By using the pilot study, the USPTO will be able to accurately assess the feasibility of competitively sourcing prior art searches. Performance and product will be reviewed to ensure the highest quality is maintained, using both an in-process review procedure and separate searches performed by experienced examiners.

The PCT competitive sourcing pilot will be implemented in multiple arts to ensure the contractors can provide a quality search report for any technology. Between three and six different art areas, all with generally high backlogs, would be selected as pilot areas. The results of the PCT pilot will provide the Office with the information necessary to implement the best possible transition from examiner searches to contractor searches. Prior to full-scale implementation, a final report would be developed that identifies the strengths, weaknesses, costs and benefits. This report would be published and made available for general review prior to a decision on whether to further implement outsourcing in other areas of the Office.

There would be multiple evaluations of the search and reports prepared by the contractors. Examiners would complete an evaluation every time a contracted search is used in the examination of a U.S. application. There would also be independent evaluations both during in-process reviews, and by independent third parties (similar to a quality review of the examination). Failure of a contractor to maintain the high quality expectations could result in the "forfeit" of the contract to the contractor.

Regarding the costs of the commercial search, our view is that quality has not been properly emphasized in recent years. Accordingly, we have listened to patent applicants and the consistent message they have conveyed to us is that quality must be improved and the cost of improving quality is something for which they are prepared to pay.

Question 6

The examiners feel that because of the synergy between exam and search in determining patentability, it will still be necessary for them to conduct their own search to maintain high quality. If the functions of search and examination are separated, is this not extremely duplicative? Further, as I read your plan, the time given to the examiner to review a case would be reduced by 1/3 if the search is outsourced. If the examiner effectively has to do his own search to maintain quality, is this not forcing them to do more work in less time? Additionally, the amount by which their time decreased has no relation to the amount you have picked to change the applicant for the search. Can you explain this seemingly arbitrary assignment of cost?

Answer*:*

With all due respect, I wish to clarify this point because you will find that not all examiners believe this characterization about splitting the functions. Clearly, you are referring to the testimony of one organization—the Patent Office Professional Association (POPA). The USPTO held a town hall meeting with our employees last fall, and I am happy to inform you that I personally spoke with many examiners who did not share POPA's views.

With respect to the assignment of cost, the cost assignment is not arbitrary but reasonable in light of the greatly diminished work any examiner must conduct once a search report is already provided. We expect a savings of time within the range of 15–20 percent if the examiners receive search reports that can be relied upon from either foreign intellectual property offices or commercial search firms. In the case of a search report from a commercial search firm, the examiner would review the report and prior art cited. If the report was inadequate or if the examiner was personally aware of other prior art, the examiner could request additional time to search the prior art, or have the report sent back to the contractor with an expla-

nation of the deficiency and a request for supplemental information. Thus the examiner would not be forced to do more work in less time.

As we reported in a previous response to examiner questions, the European Patent Office's (EPO) gradual transition to combining search and examination functions is different than the four-track examination process as proposed in the 21st Century Strategic Plan. Under the traditional EPO practice, two or more examiners within the EPO work on a single application. That is, a search examiner performs the search function, and a substantive examiner performs the examination function on a single application (sometimes as many as three perform this task). The EPO is moving towards combining the search and examination functions in order to improve examiner productivity of the combined functions.

Question 7

Has the PTO attempted to create a fee structure that approximates the actual *cost of examining an application? In other words, assigning to each examiner an hourly rate based on her seniority and experience. Then, have the examiner record the* actual *time spent examining the application. Next, multiply the two numbers and charge the applicant accordingly. This method seems not only obvious, no pun intended, but also quite equitable. It would effectively charge an applicant the cost of examining the actual application, ie, an applicant with a single claim, simple invention would be charged a substantially lower fee than an applicant submitting 500 claims for a complex bio-tech patent. And, it would provide the opportunity to credit an examiner with an appropriate amount of time for each application.*

Answer*:*

In part, the concept of equating the labor required to examine an application to its fee is one of the crucial elements of our Strategic Plan. One of the strengths of the U.S. patent system is certainty for all parties that participate. There are several reasons that we would be unable to charge an applicant in the manner you suggest, (i.e., per hour of examination). For example, such a system would mean that applicants would not know at the time they file how much their applications would cost to examine. This "blank check" approach would deter applicants and chill the patent system, particularly for independent inventors and small businesses. Further, USPTO management does not receive information about how long an examiner actually takes to examine an application. We do, however, measure total examination time spent on the total number of cases actually examined.

You will be pleased to learn that the original and revised Strategic Plans contain provisions that make the application process more equitable. These provisions, which require the fee bill or other legislation in order to be implemented, add fees for applications that exceed a certain number of claims or pages or, in other words, require more examiner time to review. The USPTO's current fee structure does not adequately cover the costs of processing complex patent applications.

The proposals to provide a more equitable application process are still part of the revised Strategic Plan, although they were scaled back from the original plan due to industry opposition. In addition, I refer you to POPA's April 3rd testimony which, while opposing some portions of the Strategic Plan, was supportive of these concepts to relate the application fee to the size of the application.

Question 8

Regarding restriction practice, the patent act allows restriction of claims based on a finding that the claims to be restricted out are "independent and distinct". The PTO directive, however, allows an examiner to make a restriction requirement based upon a finding that the claims are either independent or distinct from each other. This interpretation operates to the significant detriment of the patent applicant. What would be your suggestion for resolving this conflict? [See 35 USC .121 and MPEP 803 and 802.01].

Answer*:*

As explained in detail below, the 1952 Patent Act codified the existing restriction practice at that time which permitted restrictions to be made in cases where inventions were either "independent" or "distinct" from each other. While the statute states "independent and distinct," the legislative history makes it clear that the word "and" is to be interpreted in the alternative. Accordingly, we have not deviated from this practice.

The legislative history of the 1952 Patent Act reveals that section 121 was intended to simply codify the already existing administrative standards within the USPTO for restriction practice. The Senate and House Reports make Congress' intent regarding this straightforward codification very clear: "Section 120 and 121 express in the statute certain matters which exist in the law today but which had not

before been written into the statute, and in so doing make some minor changes in the concepts involved." S. Rep. No. 1979, 82d Cong., 2d Sess. 20, reprinted in 1952 U.S. Code Cong. & Ad. News 2394, 2400; H.R. Rep. No. 1923, 82 Cong., 2d Sess. 20 (1952). The Revision Note for section 121 in the House and Senate Reports accompanying the 1952 Patent Act similarly described Congress' intent: "This section enacts as law existing practice with respect to division [now called restriction], at the same time introducing a number of changes. Division is made discretionary with the Commissioner. The requirements of section 120 are made applicable and neither of the resulting patents can be held invalid over the other merely because of the being divided by several patents."

The Office's handling of restrictions in patent applications is based on historical practice and legislative history. Prior to the 1952 Patent Act, a number of inventions, such as combination and a subcombination thereof, as well as a process and apparatus used in the process, were properly restricted by the Office. Nothing in the language of the statute (35 U.S.C 121) or the Congressional hearings indicated any changes were to be made to the substantive law on this subject. Office practice has consistently set forth that inventions may be properly divided if they are in fact "distinct" inventions, which would separately support more than one patent.

Question 9

What is the accurate and current status of the EPO with respect to separation of search and examination functions?

Answer*:*

During the Subcommittee hearing, a letter from EPO President, Dr. Kober, was entered into the record. In this letter, he explains the current status of the EPO's operations, and I believe that this is the best source to comment on the matter.