

AIPLA

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

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**STATEMENT OF
MICHAEL K. KIRK
EXECUTIVE DIRECTOR
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION**

Before the

**SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES**

ON THE

**“UNITED STATES PATENT AND TRADEMARK OFFICE
FEE MODERNIZATION ACT OF 2003”**

April 3, 2003

3:00 p.m.

2141 Rayburn House Office Building

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, copyright, 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 To date, over \$650,000,000 in patent and trademark fees paid by PTO users have been diverted from, rescinded, or made unavailable to the Office.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 applicant 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.

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,



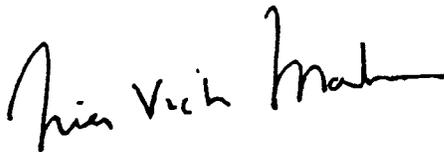
Ronald E. Myrick
President
American Intellectual Property Law Association



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.

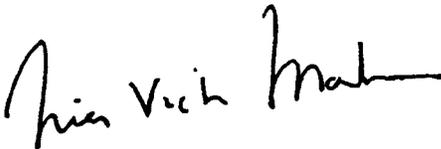
Sincerely,

A handwritten signature in black ink, appearing to read "Ronald E. Myrick". The signature is fluid and cursive, with the first name being the most prominent.

Ronald E. Myrick
President
American Intellectual Property Law Association

A handwritten signature in black ink, appearing to read "John K. Williamson". The signature is cursive and somewhat stylized.

John K. Williamson
President
Intellectual Property Owners Association

A handwritten signature in black ink, appearing to read "Nils Victor Montan". The signature is cursive and somewhat stylized.

Nils Victor Montan
President
International Trademark Association