

Testimony

of

**Kathryn Barrett Park
Executive Vice President**

International Trademark Association

**United States House of Representatives
Committee on the Judiciary
Subcommittee on Courts, the Internet and Intellectual Property**

**Oversight Hearing on the United States Patent and Trademark Office: Fee Schedule
Adjustment and Agency Reform**

July 18, 2002

Introduction

Good morning, Mr. Chairman. My name is Kathryn Barrett Park and I currently serve as the executive vice president of the International Trademark Association (“INTA”). I am employed by INTA member General Electric Company as trademark counsel. As do all INTA officers, board members and committee members, I serve on a voluntary basis.

INTA is grateful for this opportunity to assist the Subcommittee on Courts, the Internet and Intellectual Property in its consideration of statutory and regulatory fee increases for trademarks that have been proposed by the U.S. Patent and Trademark Office (“PTO”). They are:

- An unlimited and potential across the board increase in all trademark fees [Statutory].
- A \$50 increase on documents submitted on paper for which an electronic form is available [Regulatory].
- An increase to reflect fluctuations in the Consumer Price Index (CPI) [Regulatory].

While we support the goals associated with modernizing the PTO and encouraging greater use of new technologies, we are opposed to these fee increases for three reasons:

- (1) The elements of the PTO's 21st Century Strategic Plan have not yet been agreed upon by the intellectual property community and Congress, and therefore the amount of money needed to implement the plan is not yet capable of ascertainment.¹
- (2) The PTO has not made a clear and convincing case that the additional money is needed to cover the cost of current services.
- (3) More importantly, we must oppose any fee increases when we know that a significant portion of the money that our members pay as a result of those increases will be siphoned off for government agencies and programs completely unrelated to the PTO. This diversion of funds is a tax on every customer of the PTO – large or small – and whether or not the programs to which PTO funds are diverted are laudable, they should not be funded in a manner that places at risk the protection afforded to America's creativity and ingenuity.

INTA

INTA is a 124-year-old not-for-profit organization comprised of over 4,100 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 PTO. The money paid to the PTO by its customers is the agency's sole source of funding. The PTO attends to its responsibilities without the assistance of a single penny of taxpayer money.²

The Proposed Across the Board Increase

Section 5 of the proposed reauthorization legislation now before this subcommittee states with respect to trademarks:

For fiscal year 2003, the Director may adjust fees under section 31 of the Trademark Act of 1946 by amounts in excess of fluctuations during the preceding

¹ See <http://www.uspto.gov/web/offices/com/strat2001/index.htm>.

² United States General Accounting Office, Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services, 32 (May 1997).

*12 months in the Consumer Price Index, as determined by the Secretary of Labor, without regard to any other provision of law.*³

This broad, sweeping language, for all intents and purposes, provides a blank check for the PTO. There are no limits on how high the director may raise fees, which fees he may raise, or how many times he may raise them during FY 2003. INTA urges Congress not to sign this check. Before any additional funding is agreed upon there must be a better accounting of what precisely this money is needed for, and, if the need is established, language inserted in the legislation that specifies which fees will be raised and by how much, and a limit on the number of times the fees may be raised during the fiscal year.

The PTO states that this fee increase is required to:

- (1) More accurately reflect the costs of services provided.⁴
- (2) “[E]nsure that there [is] no delay in the implementation of the USPTO’s new initiatives at improving the quality of granted patent and trademark registrations, increasing efficiency through e-Government programs, and reducing pendency in processing applications for patents and for registration of trademarks,” all of which are part of the PTO’s proposed 21st Century Strategic Plan.⁵

With respect to the costs of services, the PTO has not provided to its customers and, as far as we can tell, to the Congress, any detail whatsoever as to which costs are out of line with the fees now charged. As for the strategic plan, we applaud Under Secretary Jim Rogan for his strong leadership in undertaking this creative endeavor. The plan seeks to transform the agency over a five-year period into a quality-driven, productive and cost-effective organization that is capable of supporting an international market-based intellectual property system. As is noted at the outset of this statement, INTA supports these goals, and we look forward to working with the PTO to refine the details of the plan.

The strategic plan has just been unveiled, however, and consultation between the PTO and Congress and the private sector is at an early stage. At best, it is premature for the PTO to ask Congress for unfettered authority to raise trademark fees when the need for this increase has not been established. As the consultation process continues, intellectual property owners may have

³ United States Patent and Trademark Office, Fee Legislation: United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2003, http://www.uspto.gov/web/offices/com/strat2001/21stCSP_Legislation.pdf, 7 (July 5, 2002).

⁴ United States Patent and Trademark Office, Purpose and Need for Proposed Statutory Changes to 35 U.S.C. 41 – Fees 1, http://www.uspto.gov/web/offices/com/strat2001/21stCSP_Legislation.pdf, 1 (July 5, 2002).

⁵ *Id.*

differences with the PTO and offer alternative proposals.⁶ We trust that the Congress will need time as well to study what the PTO has proposed and weigh in with its own suggestions.

Once it is clear what elements of the plan will be adopted, there will need to be a careful evaluation of the cost of implementing the plan and the degree to which the existing fees will cover that cost. It should not be automatically assumed that a fee increase will be necessary. After all, the current fee structure reflects the cost of processing what has predominately been a paper-based, manual system. With the widespread implementation of electronic filing and other technological and operational initiatives envisioned by the strategic plan, the costs of trademark processing may decrease, leaving current fee income sufficient to cover the costs of implementing the plan. Indeed, the strategic plan contemplates substantial savings from the move to an electronic processing system. The “Trademark E-Government” section of the plan indicates that “[i]t is anticipated that costs for handling applications and related materials, and reliance on increasing numbers of employees or contractors to handle increases in filings, will be substantially reduced as the reliance on paper disappears from internal processes.”⁷ In any event, the basis for any fee increases must be specifically identified, agreed upon, and justified before Congress authorizes such an increase.

Even if fee increases for PTO operations can be justified, their implementation would be meaningless if the money raised does not stay with the agency. We are referring to the now five-year-old battle over the diversion of PTO money derived from user fees.⁸

In the president’s budget proposal for PTO funding for FY 2003, the administration advocated a surcharge on America’s intellectual property owners that would raise an additional \$207 million in revenue. Only \$45 million of this money would have been returned to the PTO. The remaining \$162 million would have been relegated to the general treasury for disbursement elsewhere in the government. This surcharge approach has since been replaced with the reauthorizing legislation that is now before this subcommittee.

Whatever the means of the proposed fee increases, there remains one inescapable reality: the administration has not renounced its intent to fill at least part of the \$162 million revenue shortfall in the general treasury with PTO money. Unless controls are put in place in this

⁶ INTA has concerns about certain elements of the strategic plan. For example, the use of certified search services and of the ID manual in order to obtain expedited examination at the lowest cost, and the ability of the director to set response times through regulation, to name a few.

⁷ See <http://www.uspto.gov/web/offices/com/strat2001/index.htm> at T-02

⁸ In FY 2002, as a result of “scoring,” approximately \$44 million of PTO revenue was diverted. The president’s proposed budget for that year, asked for a withholding of \$207 million in PTO money to be used as “offsetting collections” to be made available for other government programs.” (Note, PTO Funding Clears House Without Amendment on Drug Patents, 140 Bureau of National Affairs: Regulation, Law and Economics A4 (July 23, 2001)). For FY 2001, the final number was \$116 million. The then administration proposed a diversion of \$113 million. (See Note, House Refuses to Restore Funding Cut to Patent and Trademark Office, 124 Bureau of National Affairs A10, 11 (June 27, 2000)).

reauthorization bill, any PTO fee increase will provide a considerable portion of the revenue to fill that gap, again imposing a tax on America's intellectual property owners.

Proposed Increase on Paper Filings

On May 17, 2002, the PTO published a Federal Register notice whereby the agency proposed a \$50 increase for the submission on paper of any trademark-related documents for which an electronic form currently exists.⁹ The proposal is intended to increase use of the PTO's trademark electronic filing system, which today hovers at around 30 percent. The agency has indicated that its goal is to reach an 80 percent e-filing rate by October 1, 2003.¹⁰

INTA is on record both with this subcommittee and the PTO in supporting greater use through voluntary means of new technologies to improve trademark office operations, and in our response to the PTO's notice we said that we remain "firmly committed" to such a course.¹¹ Nevertheless, we oppose the PTO's \$50 fee increase. The proposed \$50 increase for paper filings is unworkable both from a budgetary and statutory standpoint. These substantive issues are addressed below.

Budgetary

The current fee structure became effective in January 2000 and resulted in increases to a number of fees, including the basic filing fee, which rose from \$245 to \$325 per class. According to the PTO, these changes were needed to reduce pendency, reduce backlog, hire more trademark examiners, and to "fully cover the costs of trademark operations."¹² It is clear that these fees were based on the cost of examining paper documents, since at that time, e-filing had not yet reached even 20 percent and the overwhelming majority of trademark-related documents received by the PTO were on paper.

The notice published by the PTO states that the proposed \$50 paper processing fee "reflects the additional average cost of processing a paper document rather than an electronic document

⁹ 67 Fed. Reg. 35081 (2002).

¹⁰ United States Patent and Trademark Office, FY 2003 Budget Submission of the President, 22 (February 2002).

¹¹ See INTA Statement, Before the Subcommittee on Courts, the Internet and Intellectual Property (April 11, 2002); Testimony of Nils Victor Montan, President of INTA, Before the Subcommittee on Courts, the Internet & Intellectual Property (June 7, 2001); and INTA submission in response to August 30, 2001 PTO notice of proposed rulemaking on Electronic Submission of Applications for Registrations and Other Documents (October 12, 2001) ("INTA supports the trend of increased e-filing usage and believes that the PTO should continue to encourage, but not require, members of the trademark bar to use the automated system."). A copy of the INTA response to the proposed \$50 increase on paper documents is attached to this statement as Appendix 1.

¹² 64 Fed. Reg. 67775 (1999).

within the trademark operation.”¹³ But, the notice does not state that this \$50 is above and beyond the current cost recovery model. If, hypothetically, this were the case, current trademark operations would be operating at a significant deficit, since roughly 70 percent of the trademark-related documents received by the PTO are still on paper. There is nothing in the notice to suggest such a circumstance exists. Indeed, it is more plausible that the cost of examining an electronic trademark application represents a cost-savings for the PTO. Because the PTO is supposed to operate on a dollar-for-dollar basis, those savings should be passed on to the customer – the trademark owner – through a reduction in fees for electronically filed documents.

We therefore conclude, based on the information provided in the notice, that the proposal is inconsistent with the agency’s well-established dollar-for-dollar cost recovery business model. We can only assume that the money that would be raised through this increase would be vulnerable to diversion during the appropriations process.

Statutory

Beyond the lack of merit associated with the proposed \$50 increase, there is also the issue of the PTO circumventing Congress in proposals to raise established fees. The Lanham Act only authorizes the PTO director to adjust established fees to reflect fluctuations in the CPI; to fully cover the costs of trademark operations for any other reason, he must first seek authorization from the Congress.¹⁴

Trademark owners strongly believe that the imposition of the \$50 charge would *de facto* adjust already established fees for existing services. If, for example, the PTO proposal were to go into effect tomorrow, a trademark owner filing a paper application for examination, an existing service, would pay \$375, an amount which is \$50 above the established \$325 fee. That is a fee increase. It is greater than an adjustment due to the CPI and, as we indicated above, only Congress can authorize such an increase.¹⁵

¹³ 67 Fed. Reg. 35081 (2002).

¹⁴ 15 U.S.C. §1113(a) states that the director may by regulation adjust established fees only insofar as the adjustment reflects fluctuations in the Consumer Price Index (CPI). Anything beyond that requires congressional authorization (*See, e.g.* P.L. 106-113).

¹⁵ The statutes cited in the notice, 35 U.S.C. §2 and 15 U.S.C. §41, as amended, do not refer in any way to the director’s ability to set fees. Section 41 of 15 U.S.C. establishes the Federal Trade Commission, and 35 U.S.C. §2, which lists the “Powers and Duties” of the PTO, makes no reference whatsoever to the ability of the agency to adjust fees. The general rule of construction indicates that if Congress deliberately enumerated specific powers, they necessarily intended to limit the powers to those enumerated. The same can be said of 35 U.S.C. §3 and 35 U.S.C. §41, to which the PTO directed us after we raised initial concerns regarding statutory authority to raise fees. The statute entitled “Patent fees; patent and trademark search systems,” 35 U.S.C. §41, does exactly what the title says; it sets patent fees and says that the director can charge for access to automated search systems, but mentions nothing with regard to general rule-making authority concerning trademarks. Section 3 of 35 U.S.C. merely establishes the officers of the PTO, but, as with 35 U.S.C. §41, mentions nothing with regard to the rule-making authority of the director. Nor does this statute address the director’s ability to establish fees.

Today, America's brand owners ask their Members of Congress to join with them for the reasons stated above in opposing the proposed regulatory fee increase on trademark-related documents that are submitted on paper. We strongly urge Congress to exercise its oversight role and prevent the PTO from taking an action by rulemaking, namely increasing certain filing fees by \$50, that is clearly outside of the rulemaking authority of the PTO and that continues to rest within the lawmaking authority of Congress.

Consumer Price Index Increase

On May 7, 2002, the PTO published a Federal Register notice whereby the agency proposed to increase the basic filing fee for trademarks from \$325 per class to \$340 per class to reflect fluctuations in the CPI. On June 4, INTA submitted its response in opposition to the proposed increase, once again citing the likelihood that a substantial part, if not all, of the funds raised through the increase would be diverted for non-PTO uses, and thus not available to PTO to enhance PTO technology, improve the quality of examination, and prepare for new initiatives such as the Madrid Protocol.¹⁶

Conclusion

Thank you, once again, Mr. Chairman, for the opportunity to present INTA's views on the trademark-related fee changes proposed by the PTO. We urge this subcommittee to reject the PTO's proposed legislation to increase trademark fees across the board and to join with trademark owners in opposing proposed regulatory changes to the trademark fee structure for the reasons set forth above.

¹⁶ See Appendix 2 of this statement.



International Trademark Association

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APPENDIX 1

Via Electronic Mail

June 14, 2002

Commissioner for Trademarks
2900 Crystal Drive
Arlington, VA 22202-3513

Attention: Craig Morris

Re: Fifty-Dollar Processing Fee for Use of Paper Forms for Submission of Applications for
Registration and Other Documents

The International Trademark Association (“INTA”), the largest organization in the world dedicated solely to the interests of trademark owners with, over 4,000 members, hereby states its opposition to the referenced proposed rule made public by the U.S. Patent and Trademark Office (“PTO”) in the May 17, 2002 *Federal Register*. INTA remains firmly committed to fostering greater use of the PTO’s trademark e-filing system because of the obvious benefits, many of which are listed in the *Federal Register* notice (“notice”). However, we believe the proposed \$50 increase for paper filings is unsupportable both from a budgetary and statutory standpoint. A

better approach would be for the PTO to seek approval from Congress for an incentive to trademark owners to use the e-filing system through a reduction in the existing fees.

The current fee structure became effective in January 2000 and resulted in increases to a number of fees, including the basic filing fee, which rose from \$245 to \$325 per class. Changes were needed to reduce pendency, reduce backlog, hire more trademark examiners, and to “fully cover the costs of trademark operations.” 64 Fed. Reg. 67775 (1999). It is clear that these fees were set based on the cost of examining paper documents, since at that time, e-filing had not yet reached 20 percent and the overwhelming majority of trademark-related documents received by the PTO were on paper.

The current notice published by the PTO states that the proposed \$50 paper-processing fee “reflects the additional average cost of processing a paper document rather than an electronic document within the trademark operation.” P. 35081. But, the notice does not state that this \$50 is above and beyond the current cost recovery model. If, hypothetically, this were the case, current trademark operations would be operating at a significant deficit, since roughly 70% of the trademark-related documents received by the PTO are still on paper. There is nothing in the notice to suggest this. It is perhaps more plausible that the cost of examining an electronic trademark application represents a cost-savings for the PTO and since the PTO is supposed to operate on a dollar-for-dollar basis, the savings should be passed on to the customer – the trademark owner. We therefore conclude, based on the information provided in the notice, that the proposal is inconsistent with the agency’s well-established dollar-for-dollar cost recovery business model.

This unjustified increase in the fees for paper submissions is further complicated by the likelihood that not all of the money raised through the charge will be used to fund PTO operations. If history is an accurate indicator, a significant portion of the revenue raised through the increased fee on paper documents will be diverted during the appropriations process to fund other government agencies or programs. Last year, approximately \$44 million of PTO revenue was diverted. The year before that, the final number was \$116 million. Since the notice fails, in our opinion, to make a persuasive case concerning the budgetary need for the \$50 charge, we can only assume that the money that would be raised through this increase would be vulnerable to diversion during the appropriations process. Trademark owners are unwilling to support any increase in the hidden tax that is already imposed upon them.

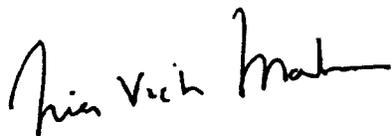
In addition to our objections to the merits of the \$50 increase, we respectfully suggest that the PTO lacks the statutory authority to impose the charge, which *de facto* would adjust existing fees, without first receiving authorization from Congress. The statutes cited in the notice, 35 U.S.C. §2 and 15 U.S.C. §41, as amended, do not refer in any way to the director’s ability to set fees. Section 41 of 15 U.S.C. establishes the Federal Trade Commission, and 35 U.S.C. §2, which lists the “Powers and Duties” of the PTO, makes no reference whatsoever to the ability of the agency to adjust fees. The general rule of construction indicates that if Congress bothered to enumerate specific powers, they necessarily intended to limit the powers to those enumerated. Put simply, the PTO has not cited in the notice clear and persuasive authority for its proposal.

The same can be said of 35 U.S.C. §3 and 35 U.S.C. §41, to which the PTO directed us after we raised initial concerns regarding statutory authority to raise fees. The statute entitled "Patent fees; patent and trademark search systems," 35 U.S.C. §41, does exactly what the title says; it sets patent fees and says that the director can charge for access to automated search systems, but mentions nothing with regard to general rule-making authority concerning trademarks. Section 3 of 35 U.S.C. merely establishes the officers of the PTO, but, as with 35 U.S.C. §41, mentions nothing with regard to the rule-making authority of the director. Nor does this statute address the director's ability to establish fees.

The Lanham Act, however, does provide specific authority for the director to establish fees for the filing and processing of an application for the registration of a trademark and for all other services and materials related to trademarks. Once established, however, the fees can only be adjusted once every year to reflect fluctuations in the Consumer Price Index ("CPI"). *See* 15 U.S.C. §1113(a). In the past, this proper limitation of authority has required the PTO to seek authorization from Congress to adjust fees without regard to fluctuations in the CPI and to fully cover the costs of trademark operations, *see, e.g.*, P.L. 106-113, and we understand that the PTO is prepared to make the same request of Congress for fiscal year 2003. If, in fact, the cost of examining documents submitted on paper is above the already established fees and the money is needed to fully cover the costs of trademark operations as it was in late 1999 (although there is nothing in the notice to suggest that this is the case), then a legislative proposal is the proper venue for a discussion. Indeed it is the only venue for any proposed fee adjustment beyond those related to the CPI.

INTA appreciates the opportunity to provide comments on the proposed rule. Trademark owners, who are the PTO's customers, urge that instead of raising the fee for paper filers, the agency look towards a reduction in the basic filing fee for those who file electronically. This provides an incentive for using e-filing and is supported by the information provided in the notice. We look forward to addressing matters relating to e-filing, fees, and reform of the examination system as part of the broader discussion that will be taking place shortly in Congress with respect to the PTO's recently released five-year strategic plan. Questions concerning INTA's position can be directed to Jon Kent, the INTA Washington Representative, at (202) 223-6222.

Sincerely,

A handwritten signature in black ink that reads "Nils Victor Montan". The signature is written in a cursive, slightly slanted style.

Nils Victor Montan
President



International Trademark Association

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APPENDIX 2

Via Electronic Mail

June 6, 2002

Mr. Matthew Lee
U.S. Patent and Trademark Office
Office of Finance
Crystal Park One
Suite 802
Washington, D.C. 20231

Re: Opposition to Trademark Application Fee Increase

Dear Mr. Lee:

For the reasons set forth below, the International Trademark Association (INTA) is opposed to the fee increase for filing a trademark application, per class, as proposed in the May 7, 2002 *Federal Register*. INTA, a 124-year-old not-for-profit organization with over 4,000 members, is the largest organization in the world dedicated solely to the interests of trademark owners. The members of INTA, who routinely apply for and maintain trademark registrations, are customers of the U.S. Patent and Trademark Office (PTO). Under the proposed rule, due to increases in the Consumer Price Index (CPI), the filing fee would be raised from \$325 per class to \$340 per class.

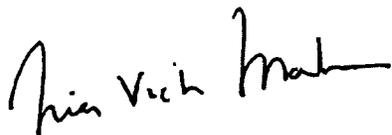
Consistent with our response to the proposed 2001 CPI increase, INTA opposes the 2002 fee increase, because it is almost a certainty that not all of the money raised through the increase will be used to help examine trademark applications. If history is an accurate indicator, a significant portion of the revenue raised through the increase will be diverted during the appropriations process to fund other government agencies or programs. Last year, the final number was approximately \$44 million. The year before that, the final number was \$116 million. These

diversions constitute a hidden tax on trademark owners, which the CPI increase proposed at this time would only exacerbate.

Because the PTO's budget is entirely fee based and not dependent on taxpayer dollars, INTA believes strongly that the revenue collected by the PTO should be fully committed to enhancing the agency's performance and staffing needs. If in fact the increased fees were to be used, in their totality, to help enhance technology, improve the quality of examination, and prepare for new initiatives such as the Madrid Protocol, we would reconsider our opposition.

If you have any questions concerning INTA's opposition to the proposed fee increase, please contact INTA Washington Representative Jon Kent at (202) 223-6222.

Sincerely,

A handwritten signature in black ink that reads "Nils Victor Montan". The signature is written in a cursive, slightly slanted style.

Nils Victor Montan
President

Disclosure of Grant, Contract or Subcontract

The subcommittee is hereby informed that the International Trademark Association has received no federal grant, contract or subcontract in the current and preceding two fiscal years.



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Curriculum Vitae

Kathryn Barrett Park is Trademark Counsel for the General Electric Company in Fairfield, Connecticut. She was previously Vice President and Senior Intellectual Property Counsel of NBA Properties, Inc. in New York. A graduate of Brown University and the Columbia University School of Law, Ms. Barrett Park has concentrated on trademark and copyright law, with special emphasis on trademark prosecution, enforcement and licensing. Ms. Barrett Park is currently an Executive Vice President of the International Trademark Association.