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99TH CONGRESS *2d Session*	SENATE	REPORT 99-305

PATENT AND TRADEMARK OFFICE AUTHORIZATION

MAY 20 (legislative day, MAY 19), 1986.—Ordered to be printed

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

REPORT

together with

ADDITIONAL VIEWS

[To accompany H.R. 2434]

The Committee on the Judiciary, to which was referred the bill (H.R. 2434) relating to the Patent and Trademark Office authorization having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

CONTENTS

I. PURPOSE OF THE LEGISLATION

The purpose of H.R. 2434 is to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal years 1986 through 1988. It also authorizes such amounts as may be necessary in each of the fiscal years 1986 through 1988 for

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adjustments in a salary, pay, retirement, and other employee benefits authorized by law. The bill specifies the types of fees charged, collected, and used by the Patent and Trademark Office to offset the agency's obligations and prohibits any fee increases during this authorization cycle beyond those needed to compensate for inflation. The Patent and Trademark Office would also be prohibited from charging fees for the use of public patent and trademark search rooms or libraries. In addition, the bill increases the Patent and Trademark Office reporting requirements and permits prior years' unobligated balances to remain available until expended.

II. HISTORY OF THE LEGISLATION

Two authorization bills were considered by the Subcommittee on Patents, Copyrights and Trademarks: S. 866, introduced at the request of the administration, and H.R. 2434, passed by the House. Both bills authorized the Patent and Trademark Office appropriations for fiscal years 1986, 1987, and 1988. In addition, both bills reduced patent fees established under 35 U.S.C. 41(a) and (b) by 50 percent for independent inventors, small businesses and nonprofit organizations. However, H.R. 2434 contained a larger authorization figure for fiscal year 1986 as well as restrictions on the use of user fee revenues and exchange agreements.

The Subcommittee on Patents, Copyrights, and Trademarks of the Senate Judiciary Committee held a hearing on both reauthorization bills on July 23, 1985. The subcommittee received testimony from The Honorable Carlos J. Moorhead, ranking minority member of the House Judiciary Committee, Subcommittee on Courts, Civil Liberties and the Administration of Justice; Donald J. Quigg, Acting Assistant Secretary of Commerce and Commissioner of Patents and Trademarks; The General Accounting Office (Warren G. Reed, Director of Information Management and Technology Division); Intellectual Property Owners, Inc. (The Honorable Donald W. Banner, President); the American Intellectual Property Law Association (Robert B. Benson, President); The United States Trademark Association (William A. Finkelstein, Executive Vice-President); and the Information Industry Association (Paul Zurkowski, President).

Additional written questions were submitted to all of the witnesses by the Chairman of the Subcommittee, Senator Charles McC. Mathias, Jr. In addition, Senator Patrick J. Leahy, ranking minority member of the subcommittee, submitted questions in writing to the Patent and Trademark Office. All witnesses submitted timely responses.

Without objection to the procedure, H.R. 2434 was polled out of the subcommittee with two amendments on February 7, 1986. The first amendment—making changes to sections 1(b), 3, and 6—was unanimously agreed to by the subcommittee. A second amendment—to section 5, on funding for automation—was agreed to by a majority vote of 5 to 2. On February 20, 1986, the Committee on the Judiciary, by voice vote and without objection, ordered the bill as amended by the subcommittee to be reported favorably to the full Senate.

III. STATEMENT

Increasingly, the vitality of the U.S. economy depends on protecting the tangible expressions of new and innovative ideas. Our patent laws help provide the incentives that, as Abraham Lincoln observed, add the fuel of interest to the fire of genius. More recently, the 1985 Report of the President's Commission on Industrial Competitiveness notes:

> When intellectual property rights are protected, innovators are able to recover the costs incurred in research, product development and market development. This cost recovery justifies the risks associated with development of new technologies and products today and is essential for stimulating the future research and development that is necessary to maintain America's competitive edge.

However, developing and administering the laws necessary to promote innovation and keep pace with changing technology is a difficult task.

Undeniably, an effective and efficient Patent Trademark Office is a necessary prerequisite for the proper administration of the patent and trademark systems. In "A Connecticut Yankee in King Arthur's Court," Mark Twain noted the importance of a patent system, ". . . a country without a patent office and good patent laws was just a crab, and couldn't travel any way but sideways or backways."

During the past few years, the Patent and Trademark Office (the Office) has made progress in improving the patent and trademark systems. The Office has reduced the pendency period for both patent and trademark applications. Further, improvements have been made in the patent and trademark examination process. The Office is continuing its efforts to closely monitor and improve the quality of both issued patents and registered trademarks.

Congress has assisted this effort by passing legislation assuring the strength of patents and trademarks, and by increasing the funding for improvements in the Office. In Public Law 96-517, enacted in 1980, Congress provided procedures for the reexamination of patents to consider certain new information bearing on patent validity.[1] The Court of Appeals for the Federal Circuit was established by Public Law 97-164 to provide a single appellate court for patent appeals from federal district courts.[2] In addition, Public Laws 96-517 and 97-247 provided additional funding for the Office by permitting the Office to administer and retain fees collected from patent applicants, trademark registrants, and other users of the Office's records.[3]

During hearings in the 99th Congress before the House and Senate Judiciary Committees, a number of concerns were raised regarding the Office's expenditures and funding. Although the issues are on either side of the Office's budget ledger, all of them revolve

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[1] An Act to Amend the Patent and Trademark Laws, Pub.L.No. 96-517, ss 302, 94STAT.3015(1980).

[2] Federal Court Improvements Act of 1982, Pub.L. No. 97-164, 96STAT.25(1982).

[3] An Act to Amend the Patent and Trademark Laws, Pub.L.No. 97-517, 94STAT.3017(1980). Patent and Trademark Office Appropriation Authorization, Pub.L.No. 97-247, 96STAT.317(1982).

around the need for increased effective congressional oversight. H.R. 2434 as reported by the Senate Judiciary Committee maintains the past objectives of increased fee funding and automating the Office while addressing the concerns that were raised about the Office's implementation of these goals.

1. Patent and Trademark Office Funding

No matter how Federal programs, projects, or activities are funded, Congress must maintain its traditional oversight responsibilities over the use of public funds. The Patent and Trademark Office receives funds not only from appropriations but also directly from user fees. As mentioned above, the authority for the administrative establishment of user fees comes from Public Law 96-517.

In subsequent legislation—Public Law 97-247—Congress increased fees, relying more on users to defray the cost of operating the Patent and Trademark Office.[4] As the House Judiciary Committee report on H.R. 2434 states, ". . . the Committee endorsed the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the Patent and Trademark Office by the payment of fees."[5] Fee income over the last 3 years has increased from $28.8 million in fiscal year 1982 to $107.3 million in fiscal year 1985. In fact, a majority of the agency's funding now comes from user fees, primarily patent application, issuance and maintenance fees and trademark application fees. Under current law, the Office reliance on user fees is projected to increase until the mid-1990s, when it is estimated that over 80 percent of the Office's overall operations will be user fee funded.[6]

Having both user fee income and appropriations to underwrite its activities places the Office in an unusual position. But Congress never envisioned that activities financed by user fees would be any more beyond the scrutiny of Congressional oversight than those activities that are paid for by appropriations. On the contrary, it is clear that the Office's authority to collect and spend user fee money does not remove these activities from Congressional oversight and control.

James Madison wrote in the Federalist 48 that "the legislative department alone has access to the pockets of the people." Both the authority to raise general revenue and the authority to allow the Office to set fees rests with Congress. If Congress is to carry out the responsibilities attending both of these exercises of its power, it must carefully review the effectiveness and efficiency of all agency activities no matter how they are funded. While it may be proper to restrict the funding of certain activities to appropriations, such restrictions cannot be justified solely by reference to the need to increase oversight. That reasoning implies that Congress has less concern over how the agency spends usr fee money. In the case of the Patent and Trademark Office, this would imply that most of

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[4] Patent and Trademark Office Appropriation Authorization, Pub. L. No. 97-247, 96 STAT. 317 (1982).
[5] H. Rept. No. 99-104, 99th Cong., 1st Sess. (1985) at 5, 6.
[6] H. Rept. No. 99-104, 99th Cong., 1st Sess. (1985) at 6.

the agency's activities are not subject to effective congressional review, which, as pointed out above, is simply not true.

During the hearing, several witnesses testified that unless the functions to which user fees may be devoted are strictly limited, pressure to increase fees will continue to build. While this concern may be legitimate, it does not explain where the line between appropriations and fees should be drawn. If only appropriated money is used for the Office's automation program, for example, it is likely that, given the Office's current level of appropriated funding, substantial reprogramming would be necessary. Some activities, such as certain management functions currently supported by appropriations, would have to be underwritten by fees so that appropriations could be used for automation. It is not self-evident why these Office activities are better suited than the automation project for user fee funding. Nor is it clear that the public would be better served by such reprogramming.

The concern over rising user fees is best addressed directly, by caps on fee increases, rather than indirectly, by restrictions on the uses to which fees can be put. Section 3 of the committee bill takes the direct approach, providing that fees will not rise faster than the Consumer Price Index. This restriction is not meant to imply that fees should necessarily rise as fast as the CPI. All fee increases should be clearly justified. The Committee believes that such factors as the actual unit costs for services and activities or any increases in unit costs which may come from planned program improvements ought to be determinative in fee adjustments. However, the Committee believes that the Office's public mandate is more important than cost recovery. When setting fees levels, care must be taken to ensure that fees do not discourage the filing of patent and trademark applications. In addition, special attention should be given to the fees of small businesses, non-profit organizations or independent inventors to ensure that user fee increases do not harm this group.

During the hearing several witnesses expressed a concern over the appropriateness of using fees to offset the costs of activities that benefit the public generally.[7] However, all activities funded by the Office, whether they are supported by appropriations or fees, provide a public benefit. The existence of a general public benefit does not automatically determine how a particular activity should be funded. Rather, it determines whether a fee is charged for that activity.

A specific question has arisen over whether a fee should be charged for the use of the patent and trademark search rooms and libraries at the Patent and Trademark Office. Like its House counterpart, the Committee has concluded that a fee should not be charged for these services. An underlying purpose of enacting patent and trademark laws is to disclose new technologies and to put the public on notice about the assertions of rights in trademarks. The broad dissemination of patent and trademark information is essential to this purpose. Much of the information published

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[7] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 284, 316, 317, 332, 333.

in patent documents can be found nowhere else. The availability of these records to researchers stimulates scientific inquiry and promotes innovation. Public access to the trademark search room and a searchable register of marks is necessary to give meaning to the constructive notice provisions of the Trademark Act and for the orderly adoption of trademarks by businesses.

The Committee believes that a proper user fee policy should look at the types of activities for which fees are to be charged and at what level each of the fees should be set. With request to the former, prior legislative enactments have delineated in great detail the Office activities for which fees can be charged. Fees were established for these activities, because while there is a public benefit in encouraging the use of patent and trademark laws, there is also a direct benefit conferred on the individual who is filing for or receiving a patent, registering a trademark, or using other Office services. The costs to the Office incurred by providing these services are offset by the fees charged.

Statutory patent fees are governed by 35 U.S.C. 41. Section 41(a) for example, covers patent filing and issue fees. In addition, Public Law 97-247 modified patent fees, requiring that:

> The overall objective . . . is to provide for increased user support for the Patent and Trademark Office and the costs associated with the actual processing of patent applications by fiscal year 1996. The fee schedule is designed to return to the government 100 percent of the actual costs.[8]

The authority for charging fees for the processing of trademark applications and services and materials related to trademarks is derived from section 31 of the Trademark Act of 1946 (15 U.S.C. 1113). Trademark fees also were modified by Public Laws 96-517 and 97-247, in which the Commissioner of Patents and Trademarks was given discretion to set fees for processing trademark registrations. The House report 97-542 states that the Committee, ". . . intends to exercise vigorous oversight with respect to the Commissioner to ensure that fees remain at a reasonable level and that trademark registerations are processed in an efficient and cost effective manner." [9] As part of that oversight, the Committee report recommended a specific fee schedule.

With respect to setting the fee level, this Committee recognizes that it is not in the public interest to discourage the use of patent and trademark laws by charging burdensome fees. The cost recovery schemes must always be balanced by the effect fee increases will have on the number of patent applications. The Committee notes that this concern is consistent with prior congressional actions. With respect to patents, Public Law 97-247 increased the fees to recover the costs of patent processing except for ". . . the fees for individuals, small businesses and nonprofit inventors," [10] which were reduced by half in order not to discourage the use of the patent system by these inventors.

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[8] H. Rept. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.
[9] H. Rept. No. 97-542, 97th Cong., 2d Sess. (1982) at 3.
[10] H. Rep. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.

Trademark fees have also been set with an eye toward encouraging registration. The report on Public Law 97-247 states, "It is expected that the Commissioner will set the fees in a way that the filing fee will be kept as low as possible to foster use of the Federal registration system. This may require that other fees for services or materials related to trademarks recover more than their actual estimated cost in order that the Commissioner achieve in the aggregate cost recovery for the entire trademark operation." [11] The Committee believes that encouragement of the use of the trademark system must temper the goal of recovering costs through the fee system. If trademark fees prove to affect trademark registrations adversely, fees, should be adjusted accordingly to minimize the adverse effect.

The Committee notes that this is only the beginning of the second authorization cycle during which fees collected by the Office have been directly available to it, rather than being deposited in the Treasury. The effect of administering fees in this manner is still unclear. At this juncture, Congress' oversight responsibilities for the collection and expenditure of these funds are particularly important, and must not be abridged.

In addition, the Committee received differing testimony regarding the effects of fees and fee increases. While the Patent and Trademark Office notes that both patent and trademark applications are increasing (including patent applications from small entities), testimony from the private sector indicates that there may be a decline in the patent applications from independent inventors as a result of the fee increases.[12] The Committee believes that the Congress needs more information on the amount of revenue being raised by each fee and how that money is being spent. In the case of trademarks, for example, Congress needs to be sure that trademark fees are going only to trademark activities as is required by statute. Also, additional information is needed on the effects of fees on total number of patent and trademark applications as well as the number of patent application by independent inventors, small businesses, and nonprofit organizations. The requirement for more information is reflected in section 3(c) of the Committee bill and is consistent with the type of information that the Department of Commerce recommended the Office provide in the Review of Patent and Trademark Automation, July 12, 1985, that was submitted for the Committee's record.

Finally, the Committee received testimony from the administration on the application of the 1959 Bureau of Budget (now the Office of Management and Budget) Circular No. A-25, entitled "User Fees." The administration cited this document as justification for its user fee policy, both for charging fees for certain activities and for determining the right fee levels. While executive documents like Circular No. A-25 may be generally instructive, the Office needs to provide more information to the Congress on its fee policy, and more detailed guidance on which, activities and what fee levels are consistent with the fee policy. Congress must evalu-

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

[12] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 296.

ate the fee policy to ensure that it complies with PTO's constitutional mandate, public obligations and statutory limitations. Two recent cases demonstrate this need by showing how fee policy was not properly applied.

Recommendations that include charging fees for use of the public search rooms, for example, are of great concern to Congress and need to be carefully evaluated with respect to any fee policy. Although the Office feels these services fall within the administration's fee policy because the benefits are an identifiable cost to the Office, the Commission in both Houses strongly disapprove of charging fees for them as reflected in section 4 of this bill.

In addition, the Committee is very concerned about the argument that the presence of "excess" fees justifies a reduction in Office appropriations. The reduction in appropriations for fiscal year 1986, justified in this manner, has led to program cuts that have reduced the quality for examinations and the availability of services. Reducing appropriations by using excess fees is not consistent with the Committee's understanding of the justification for, or proper use of, fees. At the same time, the Committee does not believe that the level of appropriations should be used in determining fee schedules; nor should the Office attempt to increase fees as a means of avoiding or diluting Congressional oversight. The Committee recognizes that any administration user fee policy goes beyond its application to this Office. Nevertheless, any attempt to apply a fee policy to this Office must be entirely consistent with congressional intent, applicable public law and its legislative history.

2. Oversight of Office Expenditures

Changes over the last several years have affected not only Office funding but also Office expenditures. In the past, the Committee received testimony that the Office charged with promoting technological change and innovation through the administration of patent and trademark laws was using a document filing system that was 160 years old. Complete file integrity and prompt handling of applications was nearly impossible. The administration testified that the Office's 26 million paper patent file documents, which are arranged in 115,000 technological categories, were stored in "shoe boxes." Given an annual workload that included well over 100,000 patent applications and over 60,000 trademark applications, this situation was unacceptable.

With Public Law 96-517 the Congress attempted to correct this situation, not only with increased funding but also by requiring the Office to submit a plan to automate the patent and trademark search files. Computerization of the patent and trademark records was intended to improve the usefulness, reliability and integrity of the search files. In addition, automation was intended to provide a substantial cost savings to the public by strengthening patent validity and increasing the quality of trademark records. In 1982, the Commissioner submitted the Automation Master Plan to Congress. A second edition of this plan, submitted February 28, 1986, estimated the total cost of automation at $808 million.

At the subcommittee hearing on July 23, 1985, the General Accounting Office testified that the PTO had already spent $9 million on trademark automation. While the GAO had already begun to review the Office's more extensive automation of the patent files, no conclusions had been reached.

The GAO's testimony on trademark automation was disturbing. The subcommittee was told that "PTO did not (1) thoroughly analyze or develop requirements analyses for its three automated trademark systems; (2) adequately assess the costs and benefits of trademark automation; (3) fully test its largest system before accepting it from a private contractor; and (4) properly manage its exchange agreements."[13]

In response to the GAO report on automation, the Department of Commerce conducted its own management review of the Office's entire automation effort and submitted it for the subcommittee's record. That review concluded that, "The main recommendation of this Management Review coincides with those made by the GAO in its April, 1985 report. While problems have been identified in this report and in the GAO study, it is important to note that the PTO has taken numerous corrective actions to date."[14]

The Committee is quite concerned about the Office's automation efforts. The problem outlined by the General Accounting Office, the Department of Commerce, and the private sector, must be addressed. The most urgent reason for enactment of H.R. 2434 is the need to strengthen Congressional oversight of the PTO's automation expenditures.

Section 5 of H.R. 2434 provides increased oversight by requiring periodic review of PTO's automation program by the Department of Commerce and the Office of Management and Budget as well as Congress. The revised Automation Master Plan outlines the key development stages in the automation effort. Section 5 provides that before implementing a key development stage, the PTO must report to the House and Senate Judiciary Committees.

Section 5 also contains a "report-and-wait" provision. Prior to the start of each of the key development stages, additional reports must be submitted to the appropriate committees. A new stage may not be implemented until 90 days after reporting. In the Committee's view, the 90-day period is essential if the General Accounting Offices and outsides private parties are to have adequate time to reiview the plan and provide their comments to the Committee.

On May 5, 1986, more than ten weeks after H.R. 2434 was ordered reported, the Committee received a letter from the Director of the Office of Management and Budget, expressing the view that the 90-day report-and-wait requirement was an "intrustion by the legislative branch into the management of an executive agency," and that it "could needlessly delay procurements that are necessary to improve the PTO's operational efficiency." The Committee disagrees. The Committee believes that the problems encountered

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[13] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 245. Also see GAO Report *Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations*, April 19, 1985.

[14] See Hearing on Patent and Trademark Office Authorization before the Senate Judiciary Subcommittee on Patents, Copyrights and Trademarks, 99th Congress, 1st sess. (1985), at 45.

in the PTO automation effort justify the enhanced oversight procedure. PTO's trademark automation efforts have been extensively reviewed by agencies in both the legislative and executive branches (GAO and the Department of Commerce). These reviews, and the GAO study of patent automation that was completed after the Committee ordered this bill reported, underscore that enhanced oversight is an abolute necessity. The question before Congress is not whether to strenghten oversight, but how.

The approach adopted by the Committee allows the PTO greater flexibility in paying for automation than the flat on use of user fees approved by the House of Representatives. But the Committee's approach will not achieve the goal of enhanced oversight unless it is accompanied by an adequate merchanism for reviewing proposed major expenditures on automation before they are made.

The Committee is also not persuaded that the report-and-wait provision will lead to undue delay. If meaningful reports are submitted in a timely fashion, and if the automation program is being properly managed, any delay should be minimized. In any case, the costs of any slight delay would be greatly outweighed by the benefits that the provision offers: more information on automation for the legislative branch and interested parties in the private sector, and the opportunity to identify and suggest solutions to automation problems before they become costly and embarrassing mistakes.

Further, the Committee does not believe that a 90-day report-and-wait period before starting each key development stage imposes an onerous burden. The reviews of PTO's automation efforts conducted by the General Accounting Office and the Department of Commerce underscore the absolute necessity for enhanced oversight. Although both the Patent and Trademark Office and the Department of Commerce have taken steps to correct the problems highlighted in these reviews, the additional oversight provided by section 5 of this legislation should ensure continued progress.

In stressing the need for increased oversight of automation expenditures, the Committee echoes the views of its House counterpart. However, the House took a different approach than the Committee recommends. The House bill required that funding for automation—both patents and trademarks—come solely from appropriations, totally to the exclusion of fee revenues. Currently, patent automation is funded through a mix of fees and appropriations while trademark automation is financed principally by fees. In requiring that all automation be funded by appropriations, the House Judiciary Committee embraced "the theory that unless the Patent and Trademark Office has to justify fully the obtaining of appropriated monies for development of an automation plan, the automation activities will not receive adequate Congressional review."[15]

The Committee recognizes the appeal of this theory, but cannot wholly accept it. The Committee reiterates that there should be no distinction in the level of oversight between activities that are funded by user fees and activities funded by appropriations. No matter how the automation project is funded, if the goal is more effective oversight, the Committee favors taking the most direct

[15] H. Rept. No. 99–104, 99th Cong., 1st Sess. (1985) at 7.

path to that goal. The Committee rejects the implication that either congressional oversight and authority or attendant statutory procurement controls (section 111 of the Federal Property and Administrative Services Act of 1949) can be circumvented simply because fees are used to underwrite automation.

The rigid restrictions approved by the House are not only unnecessary to strengthen oversight, they may also have undesirable side effects. The Committee takes note of the unceasing and increasing pressure to hold down government spending of appropriation funds. This pressure has intensified dramatically since the House passed this legislation nearly 10 months ago. If, as the House bill requires, the use of fees is restricted and all automation programs must be funded through the appropriations process, substantial and arbitrary reprogramming of funds will be required. Some activities that are currently supported by appropriations would have to be funded by fees. The Committee is not convinced that other agency activities, now funded by appropriations, are necessarily more appropriate than the automation project for funding by fees. Nor should those other PTO activities be subject to any diminution of congressional oversight or authority, although under the House's analysis the reprogramming would clearly have that significance. The Committee believes that allowing the PTO to use user fees to pay for automation increases both the amount and flexibility of funding for this essential project, and enhances the Office's capacity to achieve its automation goals. The rigidity of the House-backed approach will set back that effort.

Testimony by the GAO and private parties raised additional concerns over the PTO's use of exchange agreements. Initially, the Office traded away part of the public's access to its automated trademark data base in exchange for certain automation related services. The General Accounting Office testified that the PTO did not place any value on the limitations imposed on public access to the automated trademark data base, nor did it abide by procurement regulations in acquiring these services. In contrast to the GAO, the PTO did not characterize the exchange agreements as procurements.

The Committee strongly disagrees with the Patent and Trademark Office's use of exchange agreements for two reasons. First, as mentioned above, regardless of how activities or services are obtained, the attendant procurement laws must be obeyed and congressional authority must not be diminished. Allowing the Office to use alternatives to appropriations, such as the use of fees or exchange agreements, does not mitigate the application of the law. Second, the Committee disagrees with the limitations that were placed on public access to the search files. The Committee believes members of the public should continue to have the same access to the search files as do the Office's patent and trademark examiners, whether the files are on paper or in electronic form. The only exception to this should be for confidential information relating to pending patent applications protected under the patent laws.

For reasons mentioned above, dissemination of information is an important part of the Office's mission. Automation is supposed to improve; not impede, access to patent and trademark data. The Office should not impose barriers to access to automated systems

by the public merely to obtain services. When the Office strikes that bargain, the public suffers. This does not mean, however, that fees cannot be charged for any enhanced automation services, such as remote electronic access. When those services become feasible, the PTO should consult with Congress to develop a proper application of fee policy.

Due to problems experienced with the Office's exchange agreements relating to automation, the Committee believes that PTO should be prohibited from entering into any new exchange agreements involving automation resources other than with other governments or international intergovernmental organizations. No additional items or services relating to automatic data processing resources may be obtained in this fashion during this authorization cycle. While the House bill requires an immediate end to exchange agreements involving acquisition of automated data processing resources, the Committee believes that additional time is necessary so that the Patent and Trademark Office can comply with all of the necessary steps in the procurement process. Accordingly, the bill as amended by the Committee provides that the existing automation exchange agreements must be ended by April 1, 1987. This does not apply to agreements with national patent offices and international intergovernmental organizations.

The GAO and private parties have pointed out many mistakes that have been made in the automation process so far. The challenge now is to learn from those mistakes; the danger is that those mistakes will divert attention from the progress that has been made toward automation, and resources from the further pursuit of that goal.

While full automation of the patent and trademark records will certainly enhance the quality of the Office's services, quality issues must not be neglected in the meantime. With respect to the public search rooms, the Committee believes that the paper search files cannot be allowed to deteriorate, and that the patent file subject matter classification system must be updated continually to keep pace with changing technology. Automation of the patent and trademark files will not be completed until the 1990's. The paper search file is absolutely necessary, at least until then, if the public is to have access to accurate records. In addition, the Committee is concerned about the fisal year 1985 cutbacks in subscriptions to legal, scientific and trade periodicals and pamphlets used by patent and trademark examiners. The Committee believes these publications are essential to the examination process. Finally, the Committee did not support the reduction in the fiscal year 1986 appropriation from the requested level of $101,631,000 to $84,739,000. That reduction in appropriations had the effect of precluding improvements in Office examination quality and services. In this era of fiscal stringency, the difficult and hard-to-measure task of maintaining quality in examination procedures deserves careful attention.

The Committee continues to support strongly the concept of automating the patent and trademark search files. The Committee expects and has received assurances from PTO that it will comply with the recommendations in the GAO report.

IV. SECTION-BY-SECTION ANALYSIS

SECTION 1—AUTHORIZATION OF APPROPRIATIONS

Subsection (a) authorizes appropriations for the Patent and Trademark Office for the payment of salaries and necessary expenses of the Office. For fiscal year 1986, this section authorizes appropriations of $101,631,000; for fiscal year 1987, $110,400,000; and for fiscal year 1988, $111,900,000. The Committee agrees with the action of the House in H.R. 2434 in authorizing the Patent and Trademark Office in fiscal year 1986 at the same level as fiscal year 1985.

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

Subsection (b) provides that funds made available by these appropriations shall be used to reduce by 50 percent the amount of fees to be paid under title 35, United States Code, section 41(a) or 41(b) by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns as defined under section 3 of the Small Business Act (15 U.S.C. 632). One of the unfortunate consequences of the hiatus since this expiration of the PTO's authorization on October 1, 1985, has been the questions raised about the PTO's continued use of the lower fee rates for independent inventors, nonprofit organizations, and small businesses, without explicit legal authority to do so. This subsection dispels any doubts on this score by retroactively authorizing the fee subsidies.

SECTION 2—APPROPRIATIONS AND FEES AUTHORIZED TO BE CARRIED OVER

This section provides that fees collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended, 15 U.S.C. 1051, et seq., and amounts appropriated under the authority of section 1 of the bill, may be carried over beyond the end of a fiscal year and remain available until expended. The total amount of resources for the Office in fiscal year 1986 (that is, the amount of monies appropriated pursuant to section 1 of the bill plus fees collected pursuant to the patent and trademark laws) are estimated to be $211.4 million; the total resources for fiscal year 1987 are estimated to be $234.9 million; and the total resources for fiscal year 1988 are estimated to be $237.3 million. This section is not intended, however, to encourage or justify accumulating and carrying over large amounts of excess fees. It is recognized, however, that planning a relatively small surplus would be prudent.

Although the Committee expects the Patent and Trademark Office to make the most accurate estimates possible of fee income that will be produced by a given level of user fees, the Committee recognizes that income often will differ from estimates.

If excess fee income accumulates, the excess fees should not be used as a justification to reduce public funding for the Office. The level of public funding for the Office should, be established based on the needs of the programs of the Office for which public funds

are required. The level of public support should not be adjusted merely because the Office receives fee income different from the amount estimated. The Office should, taking due account of the views of users, develop a policy for use of these funds to enhance the quality of its operations, and should keep the appropriate committees apprised of its efforts, abiding by the appropriate laws and legislative history.

Should the Patent and Trademark Office find that fee income from patent goods for services is higher than estimated, consideration should be given to reducing the level of fees. Section 3 of the bill, which prohibits increases in trademark and certain patent fees more than once during fiscal years 1986 through 1988, does not prohibit decreases in these fees whenever appropriate. Section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) will, however, preclude adjusting some trademark fees more than once every 3 years.

Alternatively, excess fees could be used for the purpose of improving the operations of the Patent and Trademark Office, although excess fees should be spent for such purposes only after consultation with appropriate committee of the Congress.

Improvements for which excess fees might usefully be spent include improvements in the quality of examination of trademark and patent applications. For example, funds might properly be devoted to educational programs for patent and trademark examiners, including field trips; a program to improve the integrity in the search files as an interim measure until the file can be automated; additional reference materials for examiners such as scientific, trade and legal periodicals; and additional staff to eliminate backlogs at the Board of Patent Appeals and Interferences and at the Trademark Trial and Appeal Board. The Committee does not wish to imply that these or other needs of the Office must await excess fees; these and similar needs also should be addressed in annual budget requests prepared by the Patent and Trademark Office. To the extent that the annual budget is inadequate to meet the needs, however, excess fee income is an additional source of funding which might be used to help achieve first class operations in the Office.

When fee income falls short of estimates, the Committee believes the quality of the Office's services should not be out back. Shortfalls in fee income should be covered by allowing backlogs of patent and trademark applications to rise temporarily, or by allowing requests for non-essential services to go unfilled.

Section 3—Increases of Trademark and Certain Patent Fees Prohibited

Section 3 prohibits the Commissioner of Patents and Trademarks, during the fiscal years 1986, 1987 and 1988, from increasing trademark fees and certain patent fees except to adjust for changes in the Consumer Price Index limitation under title 35 of the U.S. Code. Section 3(c) requires additional information on user fees, so that Congress will have a better idea of where fees are coming from and where they are spent.

Section 3(a) prevents the Commissioner from increasing fees established under section 31 of the Trademark Act of 1946 (15 U.S.C.

1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. Under current law (section 31 of the Trademark Act of 1946), fees for the filing or processing of an application for the registration of a trademark or other mark or for the renewal or assignment of a trademark or other mark will be adjusted no more than once every 3 years.

Section 3(b) further prohibits the Commissioner from increasing patent fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous three years in the Consumer Price Index as determined by the Secretary of Labor. Fees established under subsection 41(d) are fees for all processing services or materials related to patents not covered in subsections 41(a) and 41(b) of title 35. Fees under subsection 41(a) and 41(b) are already subject to the Consumer Price Index limitation enacted as a part of Public Law 97-247.

In limiting fee adjustments to fluctuations in the Consumer Price Index, the Committee emphasizes that this is an upward limit and that fees should not be increased by this amount every 3 years as a matter of course; every fee change must be clearly justified. Factors to be considered by the PTO should include: (1) the potential effects of specific fees on applicants and other users of the patent and trademark system; (2) the actual unit costs for each service or activity; and (3) any increases in unit costs which may come from planned program improvements for better service and quality. In addition, public comments on proposed fee changes must be sought and reflected whenever adjustments are found necessary.

The phrase "in the aggregate," as used in section 3(a) and (b), applies to the total amount of revenue. Its inclusion offers the PTO the flexibility to change some trademark fees (or some patent fees to which this section applies) more or less than others so long as the total increase in the amount of fee revenues that are collected does not exceed the Consumer Price Index limitation. The Committee reiterates its concerns that trademark fee schedules, and those patent fee schedules described in section 3(b), be set in such a way so as to encourage use.

Finally, the Committee is currently not aware of any new types of processing, materials or services that require fees. Once fees for services or materials are established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) or under 35 U.S.C. 41(d) during fiscal years 1986 through 1988, the Commissioner is precluded from establishing additional fees for those services or materials. However, the Commissioner is not precluded from charging a new fee for a new service or material or from charging a different fee where a measurable change in a service or material, such as in promptness or quality, is offered. Any additional fees ought to be clearly justified.

The intent of section 3(c) is to provide greater oversight over the Office's use of user fees. The use of user fees as a major source of agency funding is relatively new, but this source of revenue will be increasingly important in years to come. A large percentage of the PTO's patent activities and essentially all of its trademark-related

expenses have been offset by fee income since the PTO was last authorized. More information is necessary to see if user fees are being spent wisely. The Committee needs to know that the PTO is conducting its affairs in the most efficient and cost-effective manner and that the financial and program assumptions being made at the PTO are in accord with sound public policy. If Congress is to maintain its traditional responsibility of reviewing and approving agency activities, it requires more complete budget information on user fee collections, and on the specific uses to which those fees are put.

In requiring these reports the Committee notes that the Commerce Department has found problems with the PTO's financial systems (see U.S. Department of Commerce "Review of Patent and Trademark Automation," July 12, 1985). Correcting these problems and providing both the Committee and the affected outside private parties with a fuller understanding of its financial condition must be a high priority for the PTO. The importance of meeting these objectives goes beyond the achievement of sound management practices and the creation of a more cooperative relationship with the public it serves. It extends to the viability of the user fee concept and whether it can be successfully applied.

The Committee wants to ensure that all fees charged are equitable, and reflect the purposes and intent of the patent and trademark laws. In addition, the Committee expects the Office to provide detailed guidance on its overall user fee policy. The Committee wants to ensure that appropriate fees are charged for appropriate activities, and that appropriations are not reduced because of excess fees.

Many concerns have been expressed about the effectiveness of the patent and trademark system and its ability to fulfill its public purpose and offer first-rate services to the users of the system. The public should have free and ready access to the scientific, technological, and other information contained in the Office's publications and public records. The users of the system, on the other hand, are entitled to have strong and certain patents promptly granted, to have trademarks promptly registered, and to have other services, all at a reasonable cost. To address these concerns, the Committee requests that the Patent and Trademark Office review the options available for improving the efficiency of the system to be able to better serve the public in general and to offer first-rate services to the users of the system. The review should be summarized in a report to Congress to be submitted within 1 year from the effective date of the authorizing legislation.

SECTION 4

Under section 4 of the bill, the Commissioner of Patents and Trademarks may not impose a fee for use of the patent and trademark search rooms or libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress.

The Committee strongly supports the policy of not charging a fee for use of public search rooms or libraries. The Committee believes that the public search rooms and libraries confer a benefit to the public that is an essential part of the Office's purpose. This benefit

outweights individuals user costs to the Office. An underlying purpose for maintaining a patent and trademark system is the dissemination of information to the public at large. The broader the dissemination, the more the public benefits in the form of increased innovation and reduced legal costs. The search rooms and libraries at the Patent and Trademark Office are essential to that purpose.

Currently, the public has access only to the paper search files of the PTO. Many of the improvements obtained through trademanrk automation could be made available to the public immediately while computerized patent records will not be fully available to the public for at least another two and half years. The Office should give some priority to completing automation of its public search files and informing Congress when these services can be made available to the general public. The Committee is aware that the restrictions placed on using fees to fund the search rooms will require either additional appropriations or reprogramming appropriations from other activities to the PTO public search rooms. If these options are not satisfactory, Congress could authorize the PTO to make services in the search room available without direct charge to the actual users by having the costs of access to automated records reflected in other fees charged for patent and trademark services. However, this suggestion can only be implemented with congressional approval.

Finally, section 4 prohibits imposing fees for access to records only at the search rooms and libraries located at the Patent and Trademark Office. The Committee did not fully examine the question of whether user fees should be charged if Patent and Trademark Office records are available for remote electronic access. The Office will not have the capability for some years to make its records available at any off-site locations.

The Committee urges the Office to proceed carefully in formulating a policy on charging user fees for off-site access to records if a decision is made in the future to offer this service. While user fees may well be justified in these circumstances, interested users of Patent and Trademark Office services should have a full opportunity to provide comments on any such proposal. Benefits accuring to both the public at large and to identifiable users should be taken into account in determining any such policy. The Patent and Trademark Office should also consider whether this service could best be accomplished by the private sector.

SECTION 5

In response to the problems experienced in automating the Patent and Trademark Office, section 5 provides increased oversight of automation expenditures by requiring review by the Department of Commerce and the Office of Management and Budget, as well as Congress. Basically, this section requires a formal review before implementing each of the key development stages in the Office's Automation Master Plan.

After Executive Branch review is completed, the automation master plan is presented to the House and Senate Judiciary Committees. This plan outlines the key development stages in the Of-

fice's automation project. The Committee expects that at a minimum the following eight stages of the plan as well as two additional items will be reported:

(1) Approval of limited deployment of the automated patent system (APS) full text search.—This involves the use of text searching software licensed from Chemical Abstract Service (CAS). Approval would be based on a positive evaluation of the existing capabilities of the software.

(2) Extended deployment of full text search.—Approval would be based on positive test results of the enhancements to the existing CAS searching software.

(3) Deployment of full electronic search with APS clusters throughout the Patent and Trademark Office.—This involves approval of the installation of the patent searching terminals for access by all patent examiners. Approval would be based on the positive evaluation of the terminals and software tested in the first cluster located in Patent Examining Group 220.

(4) Deployment of the application file maintenance capability.—This involves approving the maintaining of patent applications in electronic form. The approval of this stage would be based on a positive indication that the system can accomodate these records and on positive results from using electronic records in Group 220.

(5) Approval to deploy APS to patent public search room.—This includes public access to the full electronic patent text searching system. Because of the restrictions on the use of fees in section 4, actual deployment of the system for public use is dependent on obtaining additional appropriations, reprogramming appropriations or Congressional authorization to allow the automation to be funded by user fees from other services provided by the Office.

(6) On-going patent data capture deployment plan.—This involves approving the systems integration plan for on-going data capture and proceeding with the implementation of the plan.

(7) Automated trademark system (ATS) deployment.—The approval to deploy for operational use occurs when the integrated computer network supporting all trademark operations and other current systems is installed and successfully tested.

(8) Deployment of on-going data capture operations.—This decision entails approval of the competitive procurement awards to replace the Office's exchange agreements (see section 6 of this bill).

(9) Deployment of the automated trademark search system to the public search room and library.—As with public access to the automated patent searching facilities, deployment is dependent on funding. The Committee believes that public access to the automated records is important. While the Committee understands the funding dilemma, the Committee wants to know when these automated services could be made publicly available. Further, the Committee was informed that public access to the automated trademarks records should be possible during the current authorization cycle.

(10) Decision—Elimination of the patent and trademark paper search files.—The paper search files will be kept current and their integrity maintained until proper approval for elimination is received. Approval to eliminate the public patent and trademark paper search files would be based on successful implementation of

APS and ATS. In addition, the Office will hold public hearings on elimination of the public paper files. Disposal of examiner search files would not be until implementation of APS and ATS; even then, the U.S. patent file might be stored at a remote location.

Ninety days prior to the start of each of the above key deployment decisions, a report detailing the cost and benefit analysis as well as the method of financing for that key deployment stage must be presented to the appropriate committees. Any additional information that the appropriate committees require shall be requested by the committee prior to the submission of the report. During the 90-day "report-and-wait" period no funds for implementing that key deployment decision may be obligated. It is expected that during this 90-day period the committees will solicit the opinions of the General Accounting Office and outside private parties on that automation stage.

Section 6—Use of Exchange Agreements Relating to Automatic Data Processing Resources Is Prohibited

Section 6 limits the authority given in section 6(a) of title 35, United States Code, to the Commissioner of Patents and Trademarks to enter into exchange agreements involving automatic data processing resources (including hardware, software, and related services, and machine readable data). The section prohibits the Commissioner from entering into new exchange agreements for such resources during fiscal year 1986, 1987, and 1988 and requires that existing agreements involving such resources be terminated by April 1, 1987.

This section shall not apply to any agreement with a foreign government or an international intergovernmental organization relating to data for automation programs.

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

The Committee recognized that the Patent and Trademark Office will need to make arrangements to obtain the automatic data processing resources currently obtained under existing exchange arrangements and has therefore given the Office a grace period in which to terminate the existing arrangements.

The Committee intends that any method chosen to terminate the trademark exchange agreements will fully comply with all applicable procurement laws and regulations. The Committee believes that the costs of the termination and obtaining of the necessary trademark data bases should have come from the additional $16.9 million in appropriations authorized by section 1. If this additional appropriation is not provided, the Commissioner may draw upon excess trademark user fees for this purpose.

V. AMENDMENTS

Amendment 1

On page 2, line 6, strike out "(1)" after "subsection (a)".

On page 2, line 7, after "paid" insert the following: on or after October 1, 1985,

On page 2, line 19, after "SEC. 3." insert "OVERSIGHT AND".

On page 2, line 20, strike out "PROHIBITED".

On page 3, line 9, strike out "as described in section 41(f) of such title" and insert in lieu thereof the following: "which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor".

On page 3, beginning on line 12 insert the following new subsection:

"(c) REPORT TO CONGRESS.—The Commissioner of the Patent and Trademark Office shall, at the time of the President's annual budget submission to the Congress, provide the Committees on the Judiciary of the Senate and the House of Representatives a list of patent and fee collections; a list of activities supported by patent and fee collections; a list of activities supported by patent fee expenditures, trademark fee expenditures, and appropriations; significant planning assumptions including out-year funding estimates, and any proposed disposition of surplus fees as well as any other information the Committees deem necessary."

On page 4, line 6 after "not" insert the following: "enter into new agreements for the"

On page 4, line 7 after "exchange" insert "of".

On page 4, line 11 after "1988" insert the following:

"; nor continue existing agreements for the exchange of such items or services after April 1, 1987."

On page 4, line 13 after "or with" strike out "a bilateral or" and insert in lieu thereof "an".

AMENDMENT 2

On page 3, beginning on line 18, strike out Section 5 and insert in lieu thereof the following new Section 5:

"CONGRESSIONAL REVIEW OF PROPOSED PURCHASE OF AUTOMATED DATA PROCESSING SYSTEMS

"(a)(1) SUBMISSION OF AUTOMATION PLAN.—The Commissioner of Patents and Trademarks shall submit to the Committees on the Judiciary of the Senate and the House of Representatives the revised master automation plan (including a detailed cost benefit analysis), approved by the Secretarty of Commerce and the Director of the Office of Management and Budget, by February 28, 1986. Such revised plan shall specify the key deployment decision to be made in implementing the plan, as well as such other information as the appropriate Committees may deem necessary.

"(2) REPORT BY COMMISSIONER.—The Commissioner shall report to the Committees on the Judiciary of the Senate and the House of Representatives, at least 90 calendar days in advance of the date of implementation of each key deployment decision provided for the revised master automation plan. Each pre-deployment decision shall be approved by the Department of Commerce's designated Senior Official for Information Resources Management prior to submission. Reports of such decisions shall include the cost and method of financing the deployment decision proposed to be imple-

mented including, where appropriate, a comparison with the cost benefit analysis contained in the revised automation master plan, as well as such other information as the committees may consider necessary to carry out such oversight authority.

"(b) PROHIBITIONS ON NEW OBLIGATIONS.—The Patent and Trademark Office may not enter into any new contract nor obligate any funds to implement a key deployment decision involving automated data processing systems as specified in subsection (a) prior to the expiration of the 90 calendar days following the submission of each of the applicable reports required in such subsection."

VI. PURPOSE OF AMENDMENTS

AMENDMENT 1

The amendment changes the bill in section 1 to provide that monies appropriated under all of subsection (a) of section 1 shall be used to reduce fees for independent inventors, nonprofit organizations and small businesses.

It makes clear that in section 1 fee subsidies for independent inventors, non-profit organizations and small businesses continue after October 1, 1985.

It changes the title of section 3 to show that the section has been expanded to include oversight of trademark and certain patent fees.

It specifies in section 3(b) that patent fees may not rise faster than the Consumer Price Index.

It changes the title of section 3 to reflect that increases in trademark and certain patent fees are not actually prohibited.

By requiring a detailed annual report in section 3(c) on the source and use of fees collected by the PTO, the amendment makes clear that the Congress has oversight responsibilities over activities funded by fee income. Congress' oversight responsibilities are not limited solely to activities funded by appropriations.

It changes the bill in section 6 by modifying the procedure for ending exchange agreements. This includes making clear that the PTO is prohibited from entering into new exchange agreements. In addition changes are made that remove the requirement that the PTO end its exchange agreements immediately. This gives the PTO time to comply with all the necessary steps in the procurement process. Finally, this amendment makes clear that section 6 does not apply to agreements with foreign patent offices or international intergovernmental organizations.

AMENDMENT 2

This amendment changes the bill by removing the restriction on using fee income to pay for automation and creating a detailed procedure for congressional review of PTO automation expenditures. Allowing PTO to use fee income for automation expenditures gives it greater flexibility in paying for automation. At the same time, the 90-day report-and-wait period before each key deployment stage strengthens congressional oversight of the PTO's automation-expenditures. The 90-day period ensures the Congress has sufficient time to carry out its oversight responsibilities and examine

PTO's progress in properly implementing the recommendations outlined in the GAO and Department of Commerce reports on automation.

VII. AGENCY VIEWS

On May 5, 1986, the Committee received the following letter from the Office of Management and Budget:

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, May 5, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR STROM: I am writing to advise you of the Administration's position on H.R. 2434, which in part authorizes appropriations for fiscal years 1986–1988 for the Patent and Trademark Office (PTO) in the Department of Commerce. The Administration opposed H.R. 2434 when it was considered by the House on June 24, 1985. A Statement of Administration Policy on H.R. 2434 as sent to the House at that time is enclosed.

The Administration continues to oppose the provisions in H.R. 2434 that do not concern the authorization of appropriations, and support appropriation authorizations of $109,632,000 for fiscal year 1987 and such sums as may be necessary for fiscal year 1988.

We understand the Committee has adopted an amendment to require that automated data processing (ADP) procurement actions by the PTO be subject to a ninety-day report and wait requirement. This requirement would be in lieu of the prohibition in H.R. 2434 on the use of patent and trademark fees for procurement of ADP equipment. Under the requirement, the PTO's automation implementation and procurement decisions would be subject to a ninety-day review. The Administration strongly object to this intrusion by the Legislative branch into the management of an Executive agency. Moreover, this provision could needlessly delay procurements that are necessary to improve the PTO's operational efficiency. We believe that Congressional authorization, appropriation, and oversight hearings afford the Congress an ample opportunity to carry out its responsibilities.

Sincerely yours,

JAMES C. MILLER III,
Director.

See page 9 ante.

VIII. COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 6, 1986.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for H.R. 2434, a bill to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 2434.

2. Bill title: A bill to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes.

3. Bill status: As ordered reported by the Senate Committee on the Judiciary, February 20, 1986.

4. Bill purpose: H.R. 2434 authorizes the appropriation of $101.6 million in fiscal year 1986, $110.4 million in 1987, and $111.9 million in 1988 to carry out the activities of the Patent and Trademark Office (PTO). It also authorizes such amounts as may be necessary in each of the fiscal years 1986 through 1988 for adjustments in salary, pay, retirement, and other employee benefits authorized by law. The bill specifies the type and use of fees charged, collected, and used by the PTO to offset the agency's obligations and prohibits any fee increase during fiscal years 1986–1988 beyond those needed to compensate for inflation. The PTO would also be prohibited from charging fees for the use of public patent or trademark search rooms or libraries. In addition, the bill increases PTO reporting requirements and authorizes the PTO to use prior years' unobligated balances, to remain available until expended.

Fiscal year 1986 appropriations to date for the PTO are $81.8 million after the reduction required by the Balanced Budget and Emergency Deficit Control Act of 1985. The President is requesting an appropriation of $109.6 million in 1987.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990	1991
Authorization level:						
Specified (function 370)	[1] 19.8	110.4	111.9			
Estimated (function 920)		3.0	5.3			
Total	19.8	113.4	117.2			

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990	1991
Estimated outlays:						
Specified (function 370)	14.5	86.0	111.5	30.2		
Estimated (function 920)		2.7	5.0	.5		
Total	14.5	88.7	116.5	30.7		

[1] Since funds have already been appropriated for the PTO for fiscal year 1986, this estimate only includes the increase in 1986 appropriations that would be authorized by the bill.

H.R. 2334 would also allow the PTO to collect fees for processing patents and trademarks and for other purposes, and to use these fees, in addition to appropriations, to carry out the activities of the agency. Assuming the amounts authorized in the bill are appropriated, the maximum program levels for the PTO would be about $250 million in 1986, $230 million in 1987, and $240 million in 1988. CBO estimates that fee collections would be in the range of $110 million to $150 million in each of fiscal years 1986 through 1988.

The costs of this bill within budget function 370.

Basis of Estimate: For purposes of this estimate, only the increase in fiscal year 1986 appropriations above the amount already appropriated has been included. It was assumed that the full amounts authorized in the bill for fiscal years 1987 and 1988 would be appropriated prior to the beginning of each fiscal year. In addition, pay and other benefit increases of approximately $3 million in 1987 and $5 million in 1988 were estimated based on the assumptions underlying CBO's 1987 baseline. Outlays reflect historical spending patterns of the Patent and Trademark Office.

6. Estimated cost to State and local governments: None.

7. Estimate comparison: None.

8. Previous CBO estimate: On June 14, 1985, the Congressional Budget Office prepared a cost estimate for H.R. 2434, as reported by the House Committee on the Judiciary, May 15, 1985. The authorization levels specified in that version of H.R. 2434 are identical to the levels in this estimate, although the kinds and use of fees charged by PTO are somewhat different.

9. Estimate prepared by: Theresa A. Gullo.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

IX. REGULATORY IMPACT STATEMENT

In compliance with paragraph 11(b), Rule XXVI of the Standing Rules of the Senate, the Committee has concluded that no significant additional regulatory impact would be incurred in carrying out the provisions of this legislation. After due consideration, the Committee concluded that the changes in existing law contained in the bill will not increase or diminish any present regulatory responsibilities of the U.S. Department of Commerce or any other department or agency affected by the legislation.

X. CHANGES IN EXISTING LAW & THE COMMITTEE REPORTED BILL

H.R. 2434 makes no changes in the U.S. Code. For convenience, the text of H.R. 2434 as amended by the Senate Judiciary Committee follows:

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

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

SECTION 1. AUTHORIZATION OF APPROPRIATIONS.

(a) PURPOSES AND AMOUNTS.—There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $101,631,000 for fiscal year 1986, $110,400,000 for fiscal year 1987, and $111,900,000 for fiscal year 1988; and

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

(b) REDUCTION OF PATENT FEES.—Amounts appropriated under subsection (a) shall be used to reduce by 50 percent each fee paid on or after October 1, 1985, under section 41(a) or 41(b) of title 35, United States Code, by—

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

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

SEC. 2. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

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

SEC. 3. OVERSIGHT AND INCREASES OF TRADEMARK AND CERTAIN PATENT FEES.

(a) TRADEMARK FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(b) PATENT FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(c) REPORT TO CONGRESS.—The Commissioner of the Patent and Trademark Office shall, at the time of the President's annual budget submission to the to the Congress, provide the Committees on the Judiciary of the Senate and the House of Representatives a list of patent and fee collections; a list of activities supported by patent fee expenditures, trademark fee expenditures, and appropriations; significant planning assumptions including out-year funding estimates, and any proposed disposition of surplus fees as well as any other information the Committees deem necessary.

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

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

SEC. 5. CONGRESSIONAL REVIEW OF PROPOSED PURCHASE OF AUTOMATED DATA PROCESSING SYSTEMS.

(a)(1) SUBMISSION OF AUTOMATION PLAN.—The Commissioner of Patents and Trademarks shall submit to the Committees on the Judiciary of the Senate and the House of Representatives the revised master automation plan (including a detailed cost benefit analysis), approved by the Secretary of Commerce and the Director of the Office of Management and Budget, by February 28, 1986. Such revised plan shall specify the key deployment decision to be made in implementing the plan, as well as such other information as the appropriate Committees may deem necessary.

(2) REPORT BY COMMISSIONER.—The Commissioner shall report to the Committees on the Judiciary of the Senate and the House of Representatives, at least 90 calendar days in advance of the date of implementation of each key deployment decision provided for the revised master automation plan. Each pre-deployment decision shall be approved by the Department of Commerce's designated Senior Official for Information Resources Management prior to submission. Reports of such decisions shall include the cost and method of financing the deployment decision proposed to be implemented including, where appropriate, a comparison with the cost benefit analysis contained in the revised automation master plan, as well as such other information as the committees may consider necessary to carry out such oversight authority.

(b) PROHIBITIONS ON NEW OBLIGATIONS.—The Patent and Trademark Office may not enter into any new contract nor obligate any funds to implement a key deployment decision involving automated data processing systems as specified in subsection (a) prior to the expiration of the 90 calendar days following the submission of each of the applicable reports required in such subsection.

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

The Commissioner of Patents and Trademarks may not enter into new agreements for the exchange of items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data) during fiscal years 1986, 1987, and 1988, nor continue existing agreements for the exchange of such items or services after April 1, 1987. This sec-

tion shall not apply to any agreement relating to data for automation programs entered into with a foreign government or with an international intergovernmental organization.

XI. VOTE OF COMMITTEE

Without objection H.R. 2434 was polled out of the subcommittee with two amendments on February 7, 1986. The first amendment—making changes to sections 1(b), 3, and 6—was unanimously agreed to by the subcommittee. A second amendment—to section 5, on funding for automation—was agreed to by a majority vote of 5 to 2. On February 20, 1986, the Committee on the Judiciary, by voice vote and without objection, ordered the bill as amended by the subcommittee to be reported favorably to the full Senate.

XII. ADDITIONAL VIEWS OF MESSRS. LEAHY AND DECONCINI

We support the Committee amendments to H.R. 2434, the Patent and Trademark Authorization Bill, with one exception.

The Committee's proposed amendment to section 5 of the bill would permit the Patent and Trademark Office to use user fees to fund the automation program now underway at the PTO. We support the House position on this question, and therefore, oppose the Committee amendment to section 5.

Authorization for the current Patent and Trademark user fee scheme was contained in legislation passed by the Congress in 1980 and 1982 (Public Law 96-517 and Public Law 97-247). The Committees made clear, at that time, that users of the Patent and Trademark system should bear a significant cost for operating the system. The Congress was equally clear that functions which conferred no direct benefit to the system users but rather went to meet the general responsibilities of the Federal Government to provide a Patent and Trademark system should be paid for out of appropriated funds. We agree with the House position that capital costs associated with establishing an automated Patent and Trademark system fall into this general category and should be paid for through the use of appropriated funds.

The Patent and Trademark Office automation project is a major, one-time capital investment which has many beneficiaries other than the users of the Patent and Trademark Office who happen to be applying for patents and trademark registrations during the time when the automated system is being developed and implemented. It is unfair to charge a relatively small group of users for an automation project which has much broader benefits.

Automation will benefit the Nation's economy as a whole by providing more effective operation of the patent and trademark systems. It will also benefit users who file patent and trademark applications in later years, after the system is in place. In addition, automation will provide benefits to scientific researchers who use the patent files, and benefits to competitors of patent and trademark owners who investigate the search files to find the status of legal rights. In accordance with section 4 of the bill, these researchers and competitors, who are users of the search rooms, will not be charged any user fees.

In addition, an April 19, 1985 report of the Comptroller General, as well as House and Senate hearings, have made it clear that the use of user fees to fund the automation project has resulted in a poorly planned poorly designed, and poorly managed automation project which may have been carried out in violation of federal law. Again, we agree with the House Judiciary Committee that to properly oversee the automation of the Patent and Trademark Office, the program should be funded through the normal appro-

priations process which guarantees adequate Congressional review and oversight.

The Committee's amendment substitutes a reporting requirement to give the Committees on the Judiciary time to review the Office's automation activities. We believe this approach is unlikely to provide effective review of automation activities at an early stage. The review procedure requires reporting to the Judiciary Committees at least 90 days in advance of the date of implementation of each "key deployment decision." A last minute review before implementation of key deployment decisions is no substitute for a review during the planning stages of the automation projects. By the time key deployment decisions are reached, millions of dollars may have been spent, making it very difficult to change the direction of the project.

We would note that adopting the House position on the use of user fees to fund the PTO automation program will not affect the authorization levels contained in the bill. No additional tax dollars will be authorized or appropriated if the House position is adopted. Automation can be accomplished through reprogramming existing and planned appropriations.

We believe the House position should prevail.

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