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108TH CONGRESS, 1st Session | HOUSE OF REPRESENTATIVES | REPORT 108–241

UNITED STATES PATENT AND TRADEMARK FEE MODERNIZATION ACT OF 2003

JULY 25, 2003.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

R E P O R T

[To accompany H.R. 1561]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 1561) to amend title 35, United States Code, with respect to patent fees, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "United States Patent and Trademark Fee Modernization Act of 2003".

19–006

SEC. 2. FEES FOR PATENT SERVICES.

(a) GENERAL PATENT FEES.—Section 41(a) of title 35, United States Code, is amended to read as follows:

"(a) GENERAL FEES.—The Director shall charge the following fees:

"(1) FILING AND BASIC NATIONAL FEES.—

"(A) On filing each application for an original patent, except for design, plant, or provisional applications, $300.

"(B) On filing each application for an original design patent, $200.

"(C) On filing each application for an original plant patent, $200.

"(D) On filing each provisional application for an original patent, $200.

"(E) On filing each application for the reissue of a patent, $300.

"(F) The basic national fee for each international application filed under the treaty defined in section 351(a) of this title entering the national stage under section 371 of this title, $300.

"(G) In addition, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, for any application the specification and drawings of which exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium), $250 for each additional 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium) or fraction thereof.

"(2) EXCESS CLAIMS FEES.—In addition to the fee specified in paragraph (1)—

"(A) on filing or on presentation at any other time, $200 for each claim in independent form in excess of 3;

"(B) on filing or on presentation at any other time, $50 for each claim (whether dependent or independent) in excess of 20; and

"(C) for each application containing a multiple dependent claim, $360.

For the purpose of computing fees under this paragraph, a multiple dependent claim referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any claim that is canceled before an examination on the merits, as prescribed by the Director, has been made of the application under section 131 of this title. Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

"(3) EXAMINATION FEES.—

"(A) For examination of each application for an original patent, except for design, plant, provisional, or international applications, $200.

"(B) For examination of each application for an original design patent, $130.

"(C) For examination of each application for an original plant patent, $160.

"(D) For examination of the national stage of each international application, $200.

"(E) For examination of each application for the reissue of a patent, $600.

The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(4) ISSUE FEES.—

"(A) For issuing each original patent, except for design or plant patents, $1,400.

"(B) For issuing each original design patent, $800.

"(C) For issuing each original plant patent, $1,100.

"(D) For issuing each reissue patent, $1,400.

"(5) DISCLAIMER FEE.—On filing each disclaimer, $130.

"(6) APPEAL FEES.—

"(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, $500.

"(B) In addition, on filing a brief in support of the appeal, $500, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, $1,000.

"(7) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,500, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be $500.

"(8) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

"(A) on filing a first petition, $120;

"(B) on filing a second petition, $330; and

"(C) on filing a third or subsequent petition, $570.".

(b) PATENT MAINTENANCE FEES.—Section 41(b) of title 35, United States Code, is amended to read as follows:

"(b) MAINTENANCE FEES.—The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

"(1) 3 years and 6 months after grant, $900.

"(2) 7 years and 6 months after grant, $2,300.

"(3) 11 years and 6 months after grant, $3,800.

Unless payment of the applicable maintenance fee is received in the United States Patent and Trademark Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.".

(c) PATENT SEARCH FEES.—Section 41(d) of title 35, United States Code, is amended to read as follows:

"(d) PATENT SEARCH AND OTHER FEES.—

"(1) PATENT SEARCH FEES.—(A) The Director shall charge a fee for the search of each application for a patent, except for provisional applications. The Director shall establish the fees charged under this paragraph to recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for patent.

"(B) For purposes of determining the fees to be established under this paragraph, the cost to the Office of causing a search of an application to be made by Office personnel shall be deemed to be—

"(i) $500 for each application for an original patent, except for design, plant, provisional, or international applications;

"(ii) $100 for each application for an original design patent;

"(iii) $300 for each application for an original plant patent;

"(iv) $500 for the national stage of each international application; and

"(v) $500 for each application for the reissue of a patent.

"(C) The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application.

"(D) The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(E) For purposes of subparagraph (A), a 'qualified search authority' may not include a commercial entity unless—

"(i) the Director conducts a pilot program of limited scope, conducted over a period of not more than 18 months, which demonstrates that searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications—

"(I) are accurate; and

"(II) meet or exceed the standards of searches conducted by and used by the Patent and Trademark Office during the patent examination process;

"(ii) the Director submits a report on the results of the pilot program to the Congress and the Patent Public Advisory Committee that includes—

"(I) a description of the scope and duration of the pilot program;

"(II) the identity of each commercial entity participating in the pilot program;

"(III) an explanation of the methodology used to evaluate the accuracy and quality of the search reports;

"(IV) an assessment of the effects that the pilot program, as compared to searches conducted by the Patent and Trademark Office, had and will have on—

"(aa) patentability determinations:

"(bb) productivity of the Patent and Trademark Office;

"(cc) costs to the Patent and Trademark Office;

"(dd) costs to patent applicants; and

"(ee) other relevant factors;

"(iii) the Patent Public Advisory Committee reviews and analyzes the Director's report under clause (ii) and the results of the pilot program and submits a separate report on its analysis to the Director and the Congress that includes—

"(I) an independent evaluation of the effects that the pilot program, as compared to searches conducted by the Patent and Trademark Office, had and will have on the factors set forth in clause (ii)(IV); and

"(II) an analysis of the reasonableness, appropriateness, and effectiveness of the methods used in the pilot program to make the evaluations required under clause (ii)(IV); and

"(iv) the Congress does not, during the 1-year period beginning on the date on which the Patent Public Advisory Committee submits its report to the Congress under clause (iii), enact a law prohibiting searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications.

"(2) OTHER FEES.—The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that the Director shall charge the following fees for the following services:

"(A) For recording a document affecting title, $40 per property.

"(B) For each photocopy, $.25 per page.

"(C) For each black and white copy of a patent, $3.

The yearly fee for providing a library specified in section 12 of this title with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.".

(d) ADJUSTMENTS.—Section 41(f) of title 35, United States Code, shall apply to the fees established under the amendments made by this section, beginning in fiscal year 2005.

(e) CONFORMING AMENDMENTS.—

(1) Section 41 of title 35, United States Code, is amended—

(A) in subsection (c), by striking "(c)(1)" and inserting "(c) LATE PAYMENT OF FEES.—(1)";

(B) in subsection (e), by striking "(e)" and inserting "(e) WAIVERS OF CERTAIN FEES.—";

(C) in subsection (f), by striking "(f)" and inserting "(f) ADJUSTMENTS IN FEES.—";

(D) in subsection (g), by striking "(g)" and inserting "(g) EFFECTIVE DATES OF FEES.—";

(E) in subsection (h), by striking "(h)(1)" and inserting "(h) REDUCTIONS IN FEES FOR CERTAIN ENTITIES.—(1)"; and

(F) in subsection (i), by striking "(i)(1)" and inserting "(i) SEARCH SYSTEMS.—(1)".

(2) Section 119(e)(2) of title 35, United States Code, is amended by striking "subparagraph (A) or (C) of".

SEC. 3. ADJUSTMENT OF TRADEMARK FEES.

(a) FEE FOR FILING APPLICATION.—The fee under section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)) for filing an electronic application for the registration of a trademark shall be $325. If the trademark application is filed on paper, the fee shall be $375. The Director may reduce the fee for filing an electronic application for the registration of a trademark to $275 for any applicant who prosecutes the application through electronic means under such conditions as may be prescribed by the Director. Beginning in fiscal year 2005, the provisions of the second and third sentences of section 31(a) of the Trademark Act of 1946 shall apply to the fees established under this section.

(b) REFERENCE TO TRADEMARK ACT OF 1946.—For purposes of this section, the "Trademark Act of 1946" refers to the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes.", approved July 5, 1946 (15 U.S.C. 1051 et seq.).

SEC. 4. CORRECTION OF ERRONEOUS NAMING OF OFFICER.

(a) CORRECTION.—Section 13203(a) of the 21st Century Department of Justice Appropriations Authorization Act (Public Law 107–273; 116 Stat. 1902) is amended—

(1) in the subsection heading, by striking "COMMISSIONER" and inserting "DIRECTOR"; and

(2) in paragraphs (1) and (2), by striking "Commissioner" each place it appears and inserting "Director".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall be effective as of the date of the enactment of Public Law 107–273.

SEC. 5. PATENT AND TRADEMARK OFFICE FUNDING.

Section 42 of title 35, United States Code, is amended—

(1) in subsection (b), by striking "Appropriation"; and

(2) in subsection (c), in the first sentence—

(A) by striking "To the extent" and all that follows through "fees" and inserting "Fees"; and

(B) by striking "shall be collected by and shall be available to the Director" and inserting "shall be collected by the Director and shall be available until expended".

SEC. 6. EFFECTIVE DATE, APPLICABILITY, AND TRANSITIONAL PROVISION.

(a) EFFECTIVE DATE.—Except as provided in section 4 and this section, this Act and the amendments made by this Act shall take effect on October 1, 2003, or the date of the enactment of this Act, whichever is later.

(b) APPLICABILITY.—

(1)(A) Except as provided in subparagraphs (B) and (C), the amendments made by section 2 shall apply to all patents, whenever granted, and to all patent applications pending on or filed after the effective date set forth in subsection (a) of this section.

(B)(i) Except as provided in clause (ii), sections 41(a)(1), 41(a)(3), and 41(d)(1) of title 35, United States Code, as amended by this Act, shall apply only to—

(I) applications for patents filed under section 111(a) of title 35, United States Code, on or after the effective date set forth in subsection (a) of this section, and

(II) international applications entering the national stage under section 371 of title 35, United States Code, for which the basic national fee specified in section 41 of title 35, United States Code, was not paid before the effective date set forth in subsection (a) of this section.

(ii) Section 41(a)(1)(D) of title 35, United States Code as amended by this Act, shall apply only to applications for patent filed under section 111(b) of title 35, United States Code, before, on, or after the effective date set forth in subsection (a) of this section in which the filing fee specified in section 41 of title 35, United States Code, was not paid before the effective date set forth in subsection (a) of this section.

(C) Section 41(a)(2) of title 35, United States Code, as amended by this Act, shall apply only to the extent that the number of excess claims, after giving effect to any cancellation of claims, is in excess of the number of claims for which the excess claims fee specified in section 41 of title 35, United States Code, was paid before the effective date set forth in subsection (a) of this section.

(2) The amendments made by section 3 shall apply to all applications for the registration of a trademark filed or amended on or after the effective date set forth in subsection (a) of this section.

(c) TRANSITIONAL PROVISIONS.—

(1) SEARCH FEES.—During the period beginning on the effective date set forth in subsection (a) of this section and ending on the date on which the Director establishes search fees under the authority provided in section 41(d)(1) of title 35, United States Code, the Director shall charge—

(A) for the search of each application for an original patent, except for design, plant, provisional, or international application, $500;

(B) for the search of each application for an original design patent, $100;

(C) for the search of each application for an original plant patent, $300;

(D) for the search of the national stage of each international application, $500; and

(E) for the search of each application for the reissue of a patent, $500.

(2) TIMING OF FEES.—The provisions of section 111(a)(3) of title 35, United States Code, relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in paragraph (1) with respect to an application filed under section 111(a) of title 35, United States Code. The provisions of section 371(d) of title 35, United States Code, relating to the payment of the national fee shall apply to the payment of the fee specified in paragraph (1) with respect to an international application.

(3) REFUNDS.—The Director may by regulation provide for a refund of any part of the fee specified in paragraph (1) for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of title 35, United States Code, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

(d) EXISTING APPROPRIATIONS.—The provisions of any appropriation Act that make amounts available pursuant to section 42(c) of title 35, United States Code, and are in effect on the effective date set forth in subsection (a) shall cease to be effective on that effective date.

SEC. 7. DEFINITION.

In this Act, the term "Director" means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

SEC. 8. CLERICAL AMENDMENT.

Subsection (c) of section 311 of title 35, United States Code, is amended by aligning the text with the text of subsection (a) of such section.

PURPOSE AND SUMMARY

The primary purpose of H.R. 1561 is to readjust the fee schedule that funds the operations of the U.S. Patent and Trademark Office (PTO), thereby generating an additional $201 million in fiscal year 2004 revenue for agency use. The legislation also prevents future "diversion" of PTO funds to programs unrelated to the agency.

The Honorable James E. Rogan, Director of the PTO, insists that enactment of the fee schedule is a necessary precursor to implementation of other administrative changes set forth in the agency's "Strategic Business Plan." The Plan was developed pursuant to a congressional mandate eventually codified in the "21st Century Department of Justice Appropriations Authorization Act."[1] The Plan is designed to implement reforms that will enhance patent and trademark quality and reduce application pendency and backlogs at the agency.

Additionally, given that the PTO is completely funded through the imposition of user fees, the ongoing appropriations practice of diverting a percentage of fee revenue to non-PTO use is of great concern to Committee members, inventors, and trademark filers. Representatives of the user community have stated that their members are not opposed to reasonable fee increases, but are concerned that the appropriators will divert much of the extra revenue to non-agency use. Section 5 of H.R. 1561 acknowledges this "anti-diversion" sentiment by empowering the Director to collect and draw upon all of the fee revenue that the agency raises in a given fiscal year until expended.

BACKGROUND AND NEED FOR THE LEGISLATION

REVISED 21ST CENTURY STRATEGIC PLAN

In General. As noted, Public Law 107–685 required the PTO to develop a five-year Strategic Plan to address problems regarding

[1] Pub. L. 107–685, §§ 13101–13104.

quality, pendency, and delays in implementing a fully electronic patent environment at the agency. Congress specifically directed the PTO to identify corrective measures other than hiring more examiners and to implement electronic processing for patents by FY 2004.

Since June 2002, the PTO has revised its Strategic Plan in response to comments from Congress and the user community.[2] In its now revised Plan, the agency has addressed these issues and identified goals and initiatives that are largely supported by the major trade associations which represent patent and trademark filers.[3] While the agency has demonstrated a commitment to embrace top-to-bottom reform consistent with congressional mandates, it is equally clear that PTO requires additional revenue to implement these changes. As Director Rogan has noted:

> [Implementation of the revised Strategic Plan] hinges on passage of [H.R. 1561]. Without the ability to hire and train new examiners and also improve infrastructure, our hands will be tied * * *. The consequences of failing to enact the fee bill and giving the [PTO] access to those fees will mean quality and pendency will continue to significantly suffer. We will be unable to hire needed examiners, and over 140,000 patents will not issue over the next five years. The inventory of unexamined patent applications will skyrocket to a backlog of over one-million applications by 2008—more than double the current amount—and pendency (as measured from the time of filing) will jump to over 40 months average in the next few years. This would represent the highest pendency rate in decades.[4]

SUMMARY OF BASIC FEE SCHEDULE CHANGES

	Current fee	Revised proposed fee
Patent Large Entity:		
Filing	$750	$300
Search	NA	[1] 500
Examination	NA	[1] 200

[2] See The U.S. Patent and Trademark Office: Fee Schedule Adjustment and Agency Reform: Oversight Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 107th Cong., 2nd Sess., Final Print Serial No. 92 (2002). The transcript may also be accessed at the Committee website: www.house.gov/judiciary/courts.

[3] Letter from Carl B. Feldbaum, President, Biotechnology Industry Organization, to the Honorable Mitchell E. Daniels, Jr., Director, Office of Management and Budget (November 25, 2002); joint letter from Ronald E. Myrick, President, American Intellectual Property Law Association, John K. Williamson, President, Intellectual Property Owners Association, and Nils Victor Montan, President, International Trademark Association, to Director Daniels (November 22, 2002); letter from Mark T. Banner, Chair, and Charles P. Baker, Immediate Past Chair, Section of Intellectual Property Law, the American Bar Association, to Director Daniels (November 22, 2002). It should be noted, however, that the signatories qualified their support of the fee increases and other changes upon the Administration "effectively [addressing] the issue of diversion" (Myrick, Williamson, Montan, Banner, and Baker) or "[taking] steps to stop diversion" (Feldbaum).

In a related matter, the Honorable Donald Evans, Secretary of Commerce, testified at a March 6, 2003, hearing before the Subcommittee on Commerce, Justice, State and Judiciary of the House Committee on Appropriations. According to a PTO news release dated March 7, the Secretary stated that "the Department is working to eliminate the practice of using [agency] revenues for unrelated federal programs."

[4] H.R. 1561, the "Patent and Trademark Fee Modernization Act of 2003": Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 108th Cong., 1st Sess. (written testimony of the Honorable James E. Rogan, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office).

SUMMARY OF BASIC FEE SCHEDULE CHANGES—Continued

	Current fee	Revised proposed fee
Pre-Grant Publication	300	300
Issue	1,300	1,400
Maintenance (1st Stage)	890	900
Maintenance (2nd Stage)	2,050	2,300
Maintenance (3rd Stage)	3,150	3,800
Total	8,440	9,700
Patent Small Entity:		
Filing	375	150
Search	NA	[1] 500
Examination	NA	[1] 100
Pre-Grant Publication	300	300
Issue	650	700
Maintenance (1st Stage)	445	450
Maintenance (2nd Stage)	1,025	1,150
Maintenance (3rd Stage)	1,575	2,500
Total	4,370	5,250
Trademark:		
Application (Paper)	335	375
Application (Electronic)	NA	325
Application (Expedited)	NA	275

[1] Refundable in part depending upon stage of express abandonment.

In addition to these basic fees, the revised Plan contains other recommendations that would create new or higher fees based on the complexity of a submitted application. For example, applications with drawings and specifications that exceed 100 pages are subject to a $250 fee for each additional block of 50 pages, while applications which feature four or more independent claims or more than 20 total claims would be subject to higher fees. These new or higher fees reflect the administrative reality that larger and more complex applications are more time-consuming for the agency to process.

Other Highlights. The full text of the original Plan exceeds 300 pages. In a 17-page summary, which may be accessed at the PTO website (www.uspto.gov), the agency indicates, among other things, that it wishes to pursue the following high-profile changes as part of the revised version:

Out-sourcing of search function. The functions of searching and examination would be split, which would include "out-sourcing" some search duties to private firms. (Representative Lamar Smith, Chairman of the Committee's Subcommittee on Courts, the Internet, and Intellectual Property, offered a relevant amendment on behalf of himself and Representative Howard Berman during the May 22, 2003, Subcommittee markup of H.R. 1561. Pursuant to the Smith-Berman amendment, the practice of out-sourcing the search function must initially be limited to a pilot project.)

Certification of PTO employees. PTO workers would be subject to a more extensive employee review and certification process.

Bilateral and Multilateral Trade Agreements. More trade agreements would be negotiated to "facilitate global convergence of patent standards."

Ramping-up of paperless operations. Changes would be made to expedite the comprehensive implementation of an electronic communications system.

The Committee will continue to monitor PTO operations throughout the 108th Congress. This will include conducting any necessary oversight hearings and responding to appropriate legislative requests that will assist the agency in its efforts to reduce pendency and backlogs and to improve patent and trademark quality consistent with the directives set forth in Public Law 107–685.

PTO FUNDING DIVERSION: A HISTORY

Amid funding scarcity in 1982, Congress dramatically increased fees associated with obtaining and maintaining trademark registrations and patents to recover the costs of processing patent and trademark applications. By 1990, approximately 80% of PTO operations were funded through user fees. In an effort to reduce public expenditures and the national debt, Congress enacted the Omnibus Budget Reconciliation Act (OBRA), which, among other things, transformed the PTO into a wholly fee-supported agency. To compensate for the remaining taxpayer revenue that would be withdrawn, OBRA imposed a massive statutory patent fee increase (referred to as a "surcharge") on American inventors for a five-year period.

As part of this budget agreement, a scoring system was adopted to ensure that savings would be accurately tracked through the appropriations process. To this end, Congress mandated that the income from the surcharge be deposited into a specially-created surcharge fund in the Treasury. Unlike other fees collected by PTO, those in the surcharge fund counted against the expenditure cap for the purposes of appropriations. This meant that every dollar not spent from the surcharge fund would enable the appropriations of another taxpayer dollar to underwrite a different (non-PTO) initiative.

Initially, Congress appropriated the total amount deposited in the fund to PTO. After only one year, however, Congress began to withhold a portion of the amount deposited in the surcharge fund annually so that it could funnel additional money to other programs. Compounding the problem, Congress extended the OBRA surcharge provisions for an additional three years to take further advantage of the arrangement and later increased the statutory fees to compensate for the lapse of the surcharge after it expired at the end of fiscal year 1998.

By denying PTO the ability to spend fee revenue in the same fiscal year in which it collects the revenue, an equivalent amount may be appropriated to some other program without exceeding their budget caps. Although the money is technically available to PTO the following year, it has already been spent. The legislative response to this funding problem has been to increase the amount of fee collections unavailable to PTO in each succeeding fiscal year. As a result, more than $700 million has been diverted from PTO over the past 11 fiscal years.

PTO FUNDING DIVERSION: PREVIOUS SUBCOMMITTEE RESPONSES

Previous attempts by the Subcommittee on Courts, the Internet, and Intellectual Property to end fee diversion have met with little

success. During the 106th Congress, Representative Howard Coble offered an amendment to the House version of the Commerce-Justice-State appropriations vehicle[5] to restore nearly $134 million in PTO funding for Fiscal Year 2001 by reducing the budgets for three other programs in the bill by an identical amount. Despite a 2½-hour debate on the amendment, it ultimately failed by a substantial margin (145–223).

In the succeeding Congress, the Subcommittee reviewed as part of a PTO oversight hearing measures that would have: (1) removed PTO funding from the appropriations process[6] and (2) created a new point of order against any House bill to deny the agency full funding.[7] The general consensus among Subcommittee members and industry representatives at the time was that neither bill stood a good chance of being enacted, so no further action was taken.

ADMINISTRATION AND COMMITTEE BUDGET SUBMISSIONS FOR FISCAL YEAR 2004

The Administration has requested $1,404,130,000 for PTO operations in FY 2004, derived from offsetting collections assessed and collected pursuant to 15 U.S.C. § 1113 (trademarks) and 35 U.S.C. § 41 and § 376 (patents). To generate this revenue, the Administration recommends that Congress amend these statutes by implementing the fee modernization legislation under consideration here and certain legislative components of the revised Strategic Plan. The new fees are estimated to raise an additional $201 million, which represents roughly a 15% increase above existing rates.

The Administration argues that increased fees are essential for the PTO to make necessary investments in personnel and systems that support the Strategic Plan. At the same time, however, approximately $100 million of the revenue would be diverted for homeland security and other general treasury purposes. This is approximately a 50% decrease from last year's amount of diverted fees.

The Committee on the Judiciary recommended in its views-and-estimates submission to the Committee on the Budget that the PTO receive 100% of its projected fee income in FY 2004. Among other things, this additional funding will help to expedite implementation of the revised Strategic Plan. The Committee therefore submitted a higher recommendation ($1,500,000,000) than that set forth in the President's budget in light of the ongoing diversion of PTO funds. In its submission, the Committee noted its concern that the full amount of current year fee collections generated by user fee-paid requests for products and services has not been made available to the PTO, and thereby adversely affected delivery of services paid for by applicants.

HEARINGS

The Committee's Subcommittee on Courts, the Internet, and Intellectual Property held a hearing on H.R. 1561 on April 3, 2003.

[5] H.R. 4690, 106th Cong., 2nd Sess. (2000).

[6] H.R. 740, 107th Cong., 1st Sess. (2001) (Representative Howard Coble, sponsor). But note that H.R. 4034, the precursor bill to H.R. 740, was reported by Committee and placed on the Union Calendar during the 106th Congress. It was not considered because of opposition by the Appropriations Committee.

[7] H. Res. 110, 107th Cong., 1st Sess. (2001) (Representative Howard Berman, sponsor).

Testimony was received from the Patent and Trademark Office, Director, James E. Rogan, and representatives of two user groups, and the president of a patent examiner's union.

COMMITTEE CONSIDERATION

On May 22, 2003, the Subcommittee on Courts, the Internet, and Intellectual Property met in open session and ordered favorably reported the bill H.R. 1561, with an amendment, by voice vote, a quorum being present. On July 9, 2003, the Committee met in open session and ordered favorably reported the bill H.R. 1561, with an amendment, by voice vote, a quorum being present.

VOTE OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee notes that there were no recorded votes during the Committee consideration of H.R. 1561.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 1561, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

JULY 23, 2003.

Hon. JAMES SENSENBRENNER, Jr.,
Chairman, Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1561, the United States Patent and Trademark Fee Modernization Act of 2003.

If you wish further details on this estimate, we will be pleased to provide them. the CBO staff contact is Melissa E. Zimmerman.

Sincerely,

DOUGLAS HOLTZ-EAKIN,
Director.

Enclosure.

H.R. 1561—United States Patent and Trademark Fee Modernization Act of 2003

Summary: H.R. 1561 would increase the fees that the Patent and Trademark Office (PTO) collects for activities related to the processing and filing of patent and trademark applications. The bill also would grant the PTO permanent authority to collect and spend those fees. Under current law, the collection and spending of those fees is subject to provisions in appropriation acts.

CBO estimates that enacting the bill would result in a net decrease in direct spending of about $58 million in 2004, about $140 million over the 2004–2008 period, and about $220 million over the 2004–2013 period.

Enacting H.R. 1561 also could reduce the future need for appropriated funds for the agency's operating expenses; however, in recent years, the net appropriation to the PTO (including offsetting collections from fees) has been negative. For example, in 2003 the net PTO appropriation is estimated to be −$48 million.

H.R. 1561 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. H.R. 1561 would impose private-sector mandates as defined in UMRA on patent and trademark applicants. Based on information provided by the PTO, CBO expects that the direct costs of complying with those mandates would exceed the annual threshold established by UMRA ($117 million in 2003, adjusted annually for inflation).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 1561 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By fiscal year, in millions of dollars—									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING [1]										
Reclassification of PTO fees:										
Estimated budget authority	−1.3	−1.4	−1.4	−1.5	−1.6	−1.7	−1.7	−1.8	−1.9	−2.0
Estimated outlays	−1.3	−1.4	−1.4	−1.5	−1.6	−1.7	−1.7	−1.8	−1.9	−2.0
Increase in PTO fees under H.R. 1561:										
Estimated budget authority	−0.2	−0.2	−0.2	−0.2	−0.2	−0.2	−0.2	−0.3	−0.3	−0.3
Estimated outlays	−0.2	−0.2	−0.2	−0.2	−0.2	−0.2	−0.2	−0.3	−0.3	−0.3
Total PTO fees under H.R. 1561:										
Estimated budget authority	−1.5	−1.6	−1.7	−1.7	−1.8	−1.9	−2.0	−2.1	−2.2	−2.3
Estimated outlays	−1.5	−1.6	−1.7	−1.7	−1.8	−1.9	−2.0	−2.1	−2.2	−2.3
Spending of PTO fees:										
Estimated budget authority	1.5	1.6	1.7	1.7	1.8	1.9	2.0	2.1	2.2	2.3
Estimated outlays	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.1	2.2
Net changes in direct spending under H.R. 1561:										
Estimated budget authority	0	0	0	0	0	0	0	0	0	0
Estimated outlays	−0.1	*	*	*	*	*	*	*	*	*

[1] Enactment of H.R. 1561 also could lead to changes in discretionary spending if the Congress chose to eliminate future appropriations to the PTO in annual appropriation acts. In recent years, net appropriations to the PTO have been negative because appropriation acts have limited the agency's spending to a level below annual fee collections.

Notes:
*=Savings of less than $50 million.
Details may not sum to totals due to rounding.

Basis of estimate: Under current law, the PTO is authorized to collect fees for activities related to processing applications for patents and trademarks. The agency assesses and collects fees for a number of different activities, and the rate for each is set in law.

The collection and spending of those fees are subject to provisions in annual appropriations acts, and the fees are recorded in the budget as offsets to the discretionary spending of the PTO. CBO estimates that the agency will collect a total of about $1.2 billion in fees in 2003.

In general, those fee collections cover the PTO's operating expenses. However, the 2003 appropriation act for the PTO placed a limit on the amount of fee collections that the agency could spend. Of the estimated $1.2 billion in fees that will be collected in 2003, the act allowed the PTO to spend $1.1 billion. (The Congress also allowed the agency to spend $167 million from fees collected in prior fiscal years, resulting in a gross appropriation for the PTO of $1.2 million and an estimated net appropriation of −$48 million for 2003.)

Changes in direct spending

H.R. 1561 would have two effects on the PTO's collections. First, the bill would authorize the PTO to collect and spend the fees without further appropriation action. Because the PTO's collection and spending of fees would no longer be controlled by the availability of appropriated funds, the bill would make all of the fees available to the agency for spending. Second, the bill would restructure and, in many cases, increase the fee rates that the PTO charges for activities related to patent and trademark applications. For example, the bill would increase the fee the PTO charges for issuing an original patent (other than design or plant patents) from $1,300 to $1,400, and also would create a new fee for trademark applications that are filed electronically.

Based on historical experience, CBO estimates that the amount collected under the current PTO fee structure will increase by about 5 percent a year. After accounting for the increased fee rates under the bill, CBO estimates that PTO fees would increase by about 14 percent in 2004 compared to the fee rates that will apply under current law. CBO estimates that enacting the bill would increase fees collected by the PTO by $192 million in 2004, about $1 billion over the 2004–2008 period, and about $2.3 billion over the 2004–2013 period.

CBO estimates that the PTO's collections under current law, together with the additional collections resulting from the increased fee rates under the bill, would be about $1.5 billion in 2004, about $8.3 billion over the 2004–2008 period, and about $18.7 billion over the 2004–2013 period. Under the bill, spending would no longer be controlled by annual appropriations, so the total amount of fee collections in each year would be available for the agency to spend. CBO estimates that enacting the bill would increase direct spending by about $1.4 billion in 2004, about $8.1 billion over the 2004–2008 period, and about $18.4 billion over the 2004–2013 period. Because this spending would be offset by fee collections, CBO estimates that the net decrease in direct spending under H.R. 1561 would be $58 million in 2004, about $140 million over the 2004–2008 period, and about $220 million over the 2004–2013 period.

Spending subject to appropriation

The bill could eliminate potential discretionary savings resulting from the PTO collecting more fees than it spends. In 2003, for ex-

ample, CBO expects that total fee collections will be about $1.2 billion. For that year, the PTO's appropriation was about $48 million less than those fee collections. Net discretionary spending for the PTO in 2004 and beyond depends on future appropriations acts.

Estimated impact on state, local, and tribal governments: H.R. 1561 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimated impact on the private sector: H.R. 1561 would impose private-sector mandates as defined in UMRA on patent and trademark applicants. Patent and trademark fees are private-sector mandates because the federal government controls the trademark and patent systems and no reasonable alternatives to the systems exist. The bill would increase fees and establish new fees for certain patent and trademark services. At the same time, the bill would reduce certain filing fees for patents and fees for electronic applications to register trademarks. Based on information from the PTO, CBO estimates that the aggregate direct cost of those mandates would range from about $190 million in 2004 to about $225 million in 2008 and would exceed the annual threshold established by UMRA ($117 million in 2003, adjusted annually for inflation) in each of the next five years.

Estimate prepared by: Federal costs: Melissa E. Zimmerman; impact on state, local, and tribal governments: Sarah Puro; impact on the private sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

PERFORMANCE GOALS AND OBJECTIVES

In compliance with, clause 3(c)(4) of rule XIII of the Rules of the House of Representatives the Committee notes that H.R. 1561 provides significant new funding to the Patent and Trademark Office. The Committee expects that the Patent and Trademark Office will use that funding in accordance with its Revised Strategic Plan.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in article I, section 8, of the Constitution.

SECTION-BY-SECTION ANALYSIS AND DISCUSSION

Sec. 1. Short Title. Section One sets forth the short title of the bill, the "United States Patent and Trademark Office Fee Modernization Act of 2003."

Sec. 2. Fees for Patent Services. Section Two prescribes the dollar amounts for certain corresponding general patent and patent application fees set forth in 35 U.S.C. § 41(a) and (b). Section Two also provides for the establishment of a search fee under § 41(d). Section 41 now specifies a search fee (subsection (d)(1)) and an examination fee (subsection (a)(3)) that are separate from the filing fee (subsection (a)(1)).

Section 41(a)(1) sets out the filing fees for applications filed under § 111 of the Patent Code (original or reissue) and the basic national fee for Patent Cooperation Treaty (PCT) international applications (filed under the treaty defined in § 351(a) of the Patent

Code) entering the national stage under § 371 of the Patent Code. Under § 41(a)(1), the filing fees for applications filed under § 111 are as follows: (1) the filing fee for an application for an original patent, except for design, plant, or provisional applications, is $300; (2) the filing fee for an application for an original plant patent is $200; (3) the filing fee for an application for an original design patent is $200; (4) the filing fee for a provisional application is $200; and (5) the filing fee for an application for the reissue of a patent is $300. Under § 41(a)(1), the basic national fee for any PCT international application entering the national stage under § 371 is $300.

Under § 41(a)(1)(G), there is an additional fee for any application whose specification and drawings, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium). The additional fee under § 41(a)(1)(G) is $250 for each additional 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium, excluding any sequence listing or computer program listing) or fraction thereof. Sequence listings or computer program listings filed in an electronic medium as prescribed by the Director are excluded to encourage applicants to file any sequence listing or computer program listing in the appropriate electronic medium.

Section 41(a)(2) sets out the excess claims fees for each independent claim in excess of 3 and for each claim (whether dependent or independent) in excess of 20, and the fee for an application containing a multiple dependent claim. The excess claims fees required by § 41(a)(2) are due at the time of presentation of the claim for which payment is required (whether on filing or at a later time) in the application or reexamination proceeding.

Under § 41(a)(2)(A), the excess claims fee for each claim in independent form in excess of 3 is $200. Under § 41(a)(2)(B), the excess claims fee for each claim (whether dependent or independent) in excess of 20 is $50. Under § 41(a)(2)(C), the fee for each application containing a multiple dependent claim is $360.

Section 41(a)(3) sets out the examination fees for all applications (except for provisional applications), including PCT international applications entering the national stage under § 371. The examination fee for each application for an original patent, except for a design, plant, or international application, is $200. The examination fee for each original design patent is $130. The examination fee for each original plant patent is $160. The examination fee for the national stage of an international application is $200. And, the examination fee for each reissue application is $600. The examination fees for patent applications are set at amounts that do not recover the USPTO's costs of examining patent applications. The USPTO's costs of examining applications are subsidized by issue and maintenance fees under §§ 41(a)(4) and 41(b).

Under § 41(a)(3), the provisions of § 111(a)(3) for payment of the fee for filing the application apply to the payment of the examination fee specified in § 41(a)(3) with respect to an application filed under § 111(a), and the provisions of § 371(d) for the payment of the national fee apply to the payment of the examination fee specified in § 41(a)(3) with respect to a PCT international application enter-

ing the national stage under § 371. Thus, the examination fee is due on filing for an application filed under § 111(a) or on commencement of the national stage for a PCT international application. The examination fee, however, may be paid at a later time if paid within such period and under such conditions (including payment of a surcharge) as may be prescribed by the Director.

Section 41(a)(3) provides that the Director may prescribe regulations to provide a refund of any part of the examination fee specified in § 41(a)(3) for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under § 131. Under the former patent fee structure, an applicant who after paying the filing fee had determined that it was not worthwhile to proceed with the application had no motivation to terminate the application process prior to receiving a first Office action by the USPTO because the entire filing fee was a sunk cost under that fee structure. Under the revised patent fee structure, such an applicant will be motivated to terminate the application process before an examination of the application under § 131 because the applicant may obtain a refund of the examination fee under § 41(a)(3) (as well as the search fee under § 41(d)(1)), less any portion retained by the USPTO, if the applicant terminates the application process by filing a written declaration of express abandonment as prescribed by the Director before an examination (including any search) has been made of the application under § 131. This provision authorizes the USPTO to fix (based upon when an application is expected to be taken up for search and examination) a time by which a written declaration of express abandonment must be filed for an application to obtain such a refund, and develop procedures for informing applicants of when this time will occur.

The revised patent fee structure will permit the applicant to use the period between the filing date of an application and when the application is about to be taken up for action by the examiner to determine whether the invention claimed in the application has sufficient commercial viability to make it worthwhile to proceed with search and examination. The applicant may decide to terminate the application process because the invention does not have sufficient commercial viability by filing a written declaration of express abandonment as prescribed by the Director before an examination (including any search) has been made of the application under § 131 (to obtain any refund provided for by the regulations prescribed by the Director). This would abandon the application and obviate the need for the USPTO to proceed with the examination of the patent application.

Section 41(a)(4) sets out the fees for issuing a patent. Under § 41(a)(4), the fee for issuing each original patent, except for design or plant patents, is $1,400; the fee for issuing each original design patent is $800; the fee for issuing each original plant patent is $1,100; and the fee for issuing each reissue patent is $1,400.

Section 41(a)(5) sets out the fee due upon filing a disclaimer under section 253 of the Patent Code in a patent or a patent application, which is $130.

Section 41(a)(6) sets out the appeal fees. Under § 41(a)(6), the fee due upon filing an appeal from the examiner to the Board of Patent Appeals and Interferences is $500, the fee due upon filing a brief

in support of the appeal is an additional $500, and the fee due for requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences is an additional $1,000.

Section 41(a)(7) sets out the fees due upon filing a petition to revive an abandoned application or to accept a delayed response by the patent owner in a reexamination proceeding, which is $1,500, unless the petition is filed under § 133 or § 151 of the Patent Code, in which case the fee is $500.

Section 41(a)(8) sets out the fees due upon filing a petition for one-month extensions of time. Under § 41(a)(8), the fee for filing the first one-month petition is $120; the fee for filing the second one-month petition is $330; and the fee for filing the third or each subsequent one-month petition is $570.

Section 41(b) sets out the fee for maintaining in force a patent based on applications filed on or after December 12, 1980. Under § 41(b), the maintenance fee due at 3 years and 6 months after grant is $900; the maintenance fee due 7 years and 6 months after grant is $2,300; and the maintenance fee due 11 years and 6 months after grant is $3,800. Section 41(b) also provides that unless payment of the applicable maintenance fee is received in the USPTO on or before the date on which the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period, that the Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee, and that no fee may be established for maintaining a design or plant patent in force.

Section 41(d)(1) provides that the Director will establish fees for requesting a search of an application for a patent (except for provisional applications), including PCT international applications entering the national stage under § 371. The search fees established under § 41(d)(1) are to be set so as to recover an amount not to exceed the estimated average cost to the USPTO of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for a patent. The USPTO is expected to test the concept of exploitation of search reports obtained from qualified search contractors during examination to determine whether such a procedure is a feasible means of addressing the USPTO increasing patent workload. It is expected that exploitation of search reports obtained from qualified search contractors during examination will be tested and piloted in a step-by-step process to ensure proof of concept prior to any full implementation of such a practice.

Section 41(d)(1)(A) provides that for purposes of determining the fees to be established under § 41(d)(1), the cost to the USPTO of causing a search to be made of an application by USPTO personnel is deemed to be the transitional search fee set forth in Section Five of this Act: (1) $500 for each application for an original patent, except for a design, plant, or international application; (2) $100 for each application for an original design patent; (3) $300 for each application for an original plant patent; (4) $500 for each national stage of an international application; and (5) $500 for each application for the reissue of a patent. This provision is designed to simplify the process of determining the search fee under § 41(d)(1).

Under § 41(d)(1)(B), the provisions of § 111(a)(3) for payment of the fee for filing the application apply to the payment of the search fee specified in § 41(d)(1) with respect to an application filed under § 111(a), and the provisions of § 371(d) for the payment of the national fee apply to the payment of the search fee specified in § 41(d)(1) with respect to a PCT international application entering the national stage under § 371.

Under § 41(d)(1)(C), the Director may, by regulation, provide for a refund of any part of the search fee specified in § 41(d)(1) for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under § 131, as well as for any applicant who provides a search report that meets the conditions prescribed by the Director (as discussed above).

Finally, § 41(d)(1)(E) addresses the ability of the Director to "outsource" performance of the search function to commercial entities.

Empowering the PTO Director to initiate a program to out-source the search function is part of a larger effort to make PTO a modern, productive, and efficient federal agency. The agency, Congress, and the user groups whose members pay for PTO services all want to improve PTO operations. The Committee believes that the agency would not condone the wholesale use of out-sourcing if the practice proved detrimental to its operations. Congress—and the Committee in particular—would never abandon our oversight responsibilities and permit such an occurrence. The user groups, which endorse the Strategic Plan and are not opposed to pilot-tested outsourcing, will always offer critical commentary when necessary.

While permitting the Director to initiate limited out-sourcing activity, § 41(d)(1)(E) places exacting constraints on its use. It permits the Director to conduct a pilot program within an 18-month period to determine if commercial entities can perform the search function by producing accurate results that meet or exceed current PTO standards. At the conclusion of the program, the Director must then submit a report on the results to the Patent Public Advisory Committee, an independent entity that evaluates PTO operations on a biannual basis, as well as to the Congress. The report must address a number of detailed criteria, such as methodology, cost, and productivity, for evaluation by the Advisory Committee and Congress. The Advisory Committee must then submit its own report to the Director and Congress as to the merits of out-sourcing relative to PTO standards. Once the Advisory Committee report is completed, Congress will have an entire year if it desires to limit or prohibit the wholesale out-sourcing of searches.

Sec. 3. Adjustment of Trademark Fees. Section Three provides that the fee under section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)) for filing an electronic application for the registration of a trademark shall be $325. If the trademark application filing is done on paper the fee shall be $375. Section Three also provides that the Director may reduce the $325 fee for filing an application for the registration of a trademark in an electronic form prescribed by the Director to $275 for any applicant who also prosecutes the application through electronic means under such conditions as may be prescribed by the Director. Section Three also provides that beginning in fiscal year 2004, the provisions of the second and third sentence of section 31(a) of the Trademark Act of

1946 shall apply to the fees for filing an application for the registration of a trademark established under Section Three. Thus, the fees for filing an application for the registration of a trademark established under Section Three may be adjusted once each year (beginning on October 1, 2003) to reflect, in the aggregate, any fluctuations occurring during the preceding twelve months in the Consumer Price Index, as determined by the Secretary of Labor.

Sec. 4. Correction of Erroneous Naming of Officer. Section Four corrects a clerical error in the Intellectual Property and High Technology Technical Amendments Act of 2002 (Title III, Subtitle B, of Public Law 107–273 (116 Stat. 1758)). Specifically, Section Four amends § 13203 of Public Law 107–273 to make the Deputy Director (and not the "Deputy Commissioner") of the USPTO a member of the Board of Patent Appeals and Interferences and the Trademark Trial and Appeal Board, as was the intended result of § 13203(a) of Public Law 107–273 (see H.R. Conf. Rep. No. 107–685, at 220 (2002)).

Sec. 5. Patent and Trademark Office Funding. Section Five is based on legislation from previous Congresses.[8] The text consists of the strongest possible language to protect the PTO revenues from diversion. The bill accomplishes this goal by amending two key provisions of section 42 of the Patent Act, which prescribes the PTO funding mechanism.

First, the requirement in subsection (b) that all agency funds be credited to a special PTO Appropriation Account is deleted; instead, such funds are to be credited to a PTO Account in the Treasury.

Second, the requirement in subsection (c) that subjects the agency's collected fees to the appropriations process is also deleted. This means that the Director will have the authority to collect all fees and use them for agency operations until expended.

Sec. 6. Effective Date, Applicability, and Transitional Provision. Section Six sets forth the effective date of this bill: the later of March 30, 2003 or the date of enactment of this Act, except that Section Four takes effect as of November 2, 2002 (the effective date of Public Law 107–273).

Section Six also provides that the amendments made by Section Two apply to all patents, whenever granted, and to all patent applications pending on or filed after the effective date of this Act. Since applications pending before the effective date of this Act paid filing or basic national fees based upon former § 41(a), Section Six also provides that the filing, examination, and search fees specified in §§ 41(a)(1), 41(a)(3), and 41(d)(1), respectively (and the refund provisions of §§ 41(a)(3), and 41(d)(1)), apply only to all applications for patent filed under § 111(a) on or after the effective date of this Act, and to all PCT international applications entering the national stage after compliance with § 371 on or after the effective date of this Act, except that the provisional application filing fee specified in § 41(a)(1)(D) applies to all provisional applications for which the filing fee specified in § 41 was not paid before the effective date of this Act. Section Six also provides that the excess claims fees specified in § 41(a)(2) (and its refund provisions) apply only to the extent that the number of claims in independent form, after giving effect to any cancellation of claims, is in excess of the number of claims

[8] See note 5, supra.

in independent form for which the excess claims fee specified in § 41 was paid before the effective date of this Act, and that the number of total claims (whether independent or dependent), again after giving effect to any cancellation of claims, is in excess of the number of total claims (whether independent or dependent) for which the excess claims fee specified in § 41 was paid before the effective date of this Act.

Section Six also provides that the amendments made by Section Three shall apply to all applications for the registration of a trademark and classes added to an existing trademark application filed after the effective date of this Act. The last sentence of § 31(a) will pertain to the trademark fees established herein. That sentence states that: "No fee established under this section shall take effect until at least 30 days after the notice of the fee has been published in the Federal Register and in the Official Gazette of the United States Patent and Trademark Office."

Section Six also provides a transitional provision concerning the search fees established under § 41(d). Section Six establishes a transitional search fee of: (1) $500 for the search of each application for an original patent, except for a design, plant, provisional, or international application; (2) $160 for the search of each application for an original design patent; (3) $300 for the search of each application for an original plant patent; (4) $500 for the national stage of an international application; and (5) $500 for the search of each application for the reissue of a patent. Section Six also provides that the provisions of § 111(a)(3) for payment of the fee for filing the application apply to the payment of the transitional search fees specified in Section Six with respect to an application filed under § 111(a), and that the provisions of § 371(d) for payment of the national fee apply to the payment of the transitional search fees specified in Section Six with respect to a PCT international application. Section Six also provides that the Director may, by regulation, provide for a refund of any part of the transitional search fees specified in Section Six for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of the patent code, as well as for any applicant who provides a search report that meets the conditions prescribed by the Director (as discussed above).

Sec. 7. Definition. Section Seven clarifies that the term "Director" means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

Sec. 8. Clerical Amendment. Section Eight aligns the text of Subsection (c) of § 311 of title 35, United States Code, with that of subsection (a) of § 311.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 35, UNITED STATES CODE

* * * * * * *

PART I—UNITED STATES PATENT AND TRADEMARK OFFICE

* * * * * * *

CHAPTER 4—PATENT FEES; FUNDING; SEARCH SYSTEMS

* * * * * * *

§ 41. Patent fees; patent and trademark search systems

[(a) The Director shall charge the following fees:

[(1)(A) On filing each application for an original patent, except in design or plant cases, $690.

[(B) In addition, on filing or on presentation at any other time, $78 for each claim in independent form which is in excess of 3, $18 for each claim (whether independent or dependent) which is in excess of 20, and $260 for each application containing a multiple dependent claim.

[(C) On filing each provisional application for an original patent, $150.

[(2) For issuing each original or reissue patent, except in design or plant cases, $1,210.

[(3) In design and plant cases—

[(A) on filing each design application, $310;

[(B) on filing each plant application, $480;

[(C) on issuing each design patent, $430; and

[(D) on issuing each plant patent, $580.

[(4)(A) On filing each application for the reissue of a patent, $690.

[(B) In addition, on filing or on presentation at any other time, $78 for each claim in independent form which is in excess of the number of independent claims of the original patent, and $18 for each claim (whether independent or dependent) which is in excess of 20 and also in excess of the number of claims of the original patent.

[(5) On filing each disclaimer, $110.

[(6)(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, $300.

[(B) In addition, on filing a brief in support of the appeal, $300, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, $260.

[(7) On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,210, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be $110.

[(8) For petitions for 1-month extensions of time to take actions required by the Director in an application—

[(A) on filing a first petition, $110;

[(B) on filing a second petition, $270; and

[(C) on filing a third petition or subsequent petition, $490.

[(9) Basic national fee for an international application where the Patent and Trademark Office was the International Preliminary Examining Authority and the International Searching Authority, $670.

[(10) Basic national fee for an international application where the Patent and Trademark Office was the International Searching Authority but not the International Preliminary Examining Authority, $690.

[(11) Basic national fee for an international application where the Patent and Trademark Office was neither the International Searching Authority nor the International Preliminary Examining Authority, $970.

[(12) Basic national fee for an international application where the international preliminary examination fee has been paid to the Patent and Trademark Office, and the international preliminary examination report states that the provisions of Article 33(2), (3), and (4) of the Patent Cooperation Treaty have been satisfied for all claims in the application entering the national stage, $96.

[(13) For filing or later presentation of each independent claim in the national stage of an international application in excess of 3, $78.

[(14) For filing or later presentation of each claim (whether independent or dependent) in a national stage of an international application in excess of 20, $18.

[(15) For each national stage of an international application containing a multiple dependent claim, $260.

For the purpose of computing fees, a multiple dependent claim referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. Errors in payment of the additional fees may be rectified in accordance with regulations of the Director.

[(b) The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

[(1) 3 years and 6 months after grant, $830.

[(2) 7 years and 6 months after grant, $1,900.

[(3) 11 years and 6 months after grant, $2,910.

Unless payment of the applicable maintenance fee is received in the Patent and Trademark Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.]

(a) GENERAL FEES.—The Director shall charge the following fees:

(1) FILING AND BASIC NATIONAL FEES.—

(A) On filing each application for an original patent, except for design, plant, or provisional applications, $300.

(B) On filing each application for an original design patent, $200.

(C) On filing each application for an original plant patent, $200.

(D) On filing each provisional application for an original patent, $200.

(E) On filing each application for the reissue of a patent, $300.

(F) The basic national fee for each international application filed under the treaty defined in section 351(a) of this title entering the national stage under section 371 of this title, $300.

(G) In addition, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, for any application the specification and drawings of which exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium), $250 for each additional 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium) or fraction thereof.

(2) EXCESS CLAIMS FEES.—In addition to the fee specified in paragraph (1)—

(A) on filing or on presentation at any other time, $200 for each claim in independent form in excess of 3;

(B) on filing or on presentation at any other time, $50 for each claim (whether dependent or independent) in excess of 20; and

(C) for each application containing a multiple dependent claim, $360.

For the purpose of computing fees under this paragraph, a multiple dependent claim referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any claim that is canceled before an examination on the merits, as prescribed by the Director, has been made of the application under section 131 of this title. Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

(3) EXAMINATION FEES.—

(A) For examination of each application for an original patent, except for design, plant, provisional, or international applications, $200.

(B) For examination of each application for an original design patent, $130.

(C) For examination of each application for an original plant patent, $160.

(D) For examination of the national stage of each international application, $200.

(E) For examination of each application for the reissue of a patent, $600.

The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to

an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

(4) ISSUE FEES.—

(A) For issuing each original patent, except for design or plant patents, $1,400.

(B) For issuing each original design patent, $800.

(C) For issuing each original plant patent, $1,100.

(D) For issuing each reissue patent, $1,400.

(5) DISCLAIMER FEE.—On filing each disclaimer, $130.

(6) APPEAL FEES.—

(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, $500.

(B) In addition, on filing a brief in support of the appeal, $500, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, $1,000.

(7) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,500, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be $500.

(8) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

(A) on filing a first petition, $120;

(B) on filing a second petition, $330; and

(C) on filing a third or subsequent petition, $570.

(b) MAINTENANCE FEES.—The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

(1) 3 years and 6 months after grant, $900.

(2) 7 years and 6 months after grant, $2,300.

(3) 11 years and 6 months after grant, $3,800.

Unless payment of the applicable maintenance fee is received in the United States Patent and Trademark Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.

[(c)(1)**]** *(c) LATE PAYMENT OF FEES.—(1)* The Director may accept the payment of any maintenance fee required by subsection (b) of this section which is made within twenty-four months after the six-month grace period if the delay is shown to the satisfaction of the Director to have been unintentional, or at any time after the six-

month grace period if the delay is shown to the satisfaction of the Director to have been unavoidable. The Director may require the payment of a surcharge as a condition of accepting payment of any maintenance fee after the six-month grace period. If the Director accepts payment of a maintenance fee after the six-month grace period, the patent shall be considered as not having expired at the end of the grace period.

* * * * * * *

[(d) The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that the Director shall charge the following fees for the following services:

[(1) For recording a document affecting title, $40 per property.

[(2) For each photocopy, $.25 per page.

[(3) For each black and white copy of a patent, $3.

The yearly fee for providing a library specified in section 13 of this title with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.]

(d) PATENT SEARCH AND OTHER FEES.—

(1) PATENT SEARCH FEES.—(A) The Director shall charge a fee for the search of each application for a patent, except for provisional applications. The Director shall establish the fees charged under this paragraph to recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for patent.

(B) For purposes of determining the fees to be established under this paragraph, the cost to the Office of causing a search of an application to be made by Office personnel shall be deemed to be—

(i) $500 for each application for an original patent, except for design, plant, provisional, or international applications;

(ii) $100 for each application for an original design patent;

(iii) $300 for each application for an original plant patent;

(iv) $500 for the national stage of each international application; and

(v) $500 for each application for the reissue of a patent.

(C) The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application.

(D) The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any ap-

plicant who provides a search report that meets the conditions prescribed by the Director.

(E) For purposes of subparagraph (A), a "qualified search authority" may not include a commercial entity unless—

(i) the Director conducts a pilot program of limited scope, conducted over a period of not more than 18 months, which demonstrates that searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications—

(I) are accurate; and

(II) meet or exceed the standards of searches conducted by and used by the Patent and Trademark Office during the patent examination process;

(ii) the Director submits a report on the results of the pilot program to the Congress and the Patent Public Advisory Committee that includes—

(I) a description of the scope and duration of the pilot program;

(II) the identity of each commercial entity participating in the pilot program;

(III) an explanation of the methodology used to evaluate the accuracy and quality of the search reports;

(IV) an assessment of the effects that the pilot program, as compared to searches conducted by the Patent and Trademark Office, had and will have on—

(aa) patentability determinations:

(bb) productivity of the Patent and Trademark Office;

(cc) costs to the Patent and Trademark Office;

(dd) costs to patent applicants; and

(ee) other relevant factors;

(iii) the Patent Public Advisory Committee reviews and analyzes the Director's report under clause (ii) and the results of the pilot program and submits a separate report on its analysis to the Director and the Congress that includes—

(I) an independent evaluation of the effects that the pilot program, as compared to searches conducted by the Patent and Trademark Office, had and will have on the factors set forth in clause (ii)(IV); and

(II) an analysis of the reasonableness, appropriateness, and effectiveness of the methods used in the pilot program to make the evaluations required under clause (ii)(IV); and

(iv) the Congress does not, during the 1-year period beginning on the date on which the Patent Public Advisory Committee submits its report to the Congress under clause (iii), enact a law prohibiting searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications.

(2) OTHER FEES.—The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that

the Director shall charge the following fees for the following services:

(A) For recording a document affecting title, $40 per property.

(B) For each photocopy, $.25 per page.

(C) For each black and white copy of a patent, $3.

The yearly fee for providing a library specified in section 12 of this title with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.

(e) *WAIVERS OF CERTAIN FEES.*—The Director may waive the payment of any fee for any service or material related to patents in connection with an occasional or incidental request made by a department or agency of the Government, or any officer thereof. The Director may provide any applicant issued a notice under section 132 of this title with a copy of the specifications and drawings for all patents referred to in that notice without charge.

(f) *ADJUSTMENTS IN FEES.*—The fees established in subsections (a) and (b) of this section may be adjusted by the Director on October 1, 1992, and every year thereafter, to reflect any fluctuations occurring during the previous 12 months in the Consumer Price Index, as determined by the Secretary of Labor. Changes of less than 1 per centum may be ignored.

(g) *EFFECTIVE DATES OF FEES.*—No fee established by the Director under this section shall take effect until at least 30 days after notice of the fee has been published in the Federal Register and in the Official Gazette of the Patent and Trademark Office.

[(h)(1)**]** *(h) REDUCTIONS IN FEES FOR CERTAIN ENTITIES.—(1)* Fees charged under subsection (a) or (b) shall be reduced by 50 percent with respect to their application to any small business concern as defined under section 3 of the Small Business Act, and to any independent inventor or nonprofit organization as defined in regulations issued by the Director.

* * * * * * *

[(i)(1)**]** *(i) SEARCH SYSTEMS.—(1)* The Director shall maintain, for use by the public, paper, microform, or electronic collections of United States patents, foreign patent documents, and United States trademark registrations arranged to permit search for and retrieval of information. The Director may not impose fees directly for the use of such collections, or for the use of the public patent or trademark search rooms or libraries.

* * * * * * *

§ 42. Patent and Trademark Office funding

(a) * * *

(b) All fees paid to the Director and all appropriations for defraying the costs of the activities of the Patent and Trademark Office will be credited to the Patent and Trademark Office **[**Appropriation**]** Account in the Treasury of the United States.

(c) **[**To the extent and in the amounts provided in advance in appropriations Acts, fees**]** *Fees* authorized in this title or any other Act to be charged or established by the Director **[**shall be collected by and shall be available to the Director**]** *shall be collected by the Director and shall be available until expended* to carry out the activities of the Patent and Trademark Office. All fees available to

the Director under section 31 of the Trademark Act of 1946 shall be used only for the processing of trademark registrations and for other activities, services, and materials relating to trademarks and to cover a proportionate share of the administrative costs of the Patent and Trademark Office.

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CHAPTER 10—PATENTABILITY OF INVENTIONS

* * * * * * *

§ 119. Benefit of earlier filing date; right of priority

(a) * * *

* * * * * * *

(e)(1) * * *

(2) A provisional application filed under section 111(b) of this title may not be relied upon in any proceeding in the Patent and Trademark Office unless the fee set forth in [subparagraph (A) or (C) of] section 41(a)(1) of this title has been paid.

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CHAPTER 31—OPTIONAL INTER PARTES REEXAMINATION PROCEDURES

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§ 311. Request for inter partes reexamination

(a) * * *

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(c) COPY.—The Director promptly shall send a copy of the request to the owner of record of the patent.

* * * * * * *

SECTION 13203 OF THE 21st CENTURY DEPARTMENT OF JUSTICE APPROPRIATIONS AUTHORIZATION ACT

(Public Law 107–273)

SEC. 13203. PATENT AND TRADEMARK EFFICIENCY ACT AMENDMENTS.

(a) DEPUTY [COMMISSIONER] *DIRECTOR*.—

(1) Section 17(b) of the Act of July 5, 1946 (commonly referred to as the "Trademark Act of 1946") (15 U.S.C. 1067(b)), is amended by inserting "the Deputy [Commissioner] *Director*," after "[Commissioner] *Director*,".

(2) Section 6(a) of title 35, United States Code, is amended by inserting "the Deputy [Commissioner] *Director*," after "[Commissioner] *Director*,".

* * * * * * *

MARKUP TRANSCRIPT

BUSINESS MEETING

WEDNESDAY, JULY 9, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 10:00 a.m., in Room 2141, Rayburn House Office Building, Hon. F. James Sensenbrenner, Jr., [Chairman of the Committee] presiding.

[Intervening business.]

AFTERNOON SESSION

Chairman SENSENBRENNER. The Committee will be in order. A working quorum is present, and the next item on the agenda is H.R. 1561, the "United States Patent and Trademark Fee Modernization Act of 2003." The Chair recognizes the gentleman from Texas, Mr. Smith, Chairman of the Subcommittee on Courts, the Internet, and Intellectual Property for a motion.

Mr. SMITH. Mr. Chairman, the Subcommittee on Courts, the Internet, and Intellectual Property reports favorably the bill H.R. 1561 with a single amendment in the nature of a substitute, and moves its favorable recommendation to the full House.

Chairman SENSENBRENNER. Without objection the bill will be considered as read and open for amendment at any point.

[The bill, H.R. 1561, follows:]

I

108TH CONGRESS
1ST SESSION

H. R. 1561

To amend title 35, United States Code, with respect to patent fees, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 2, 2003

Mr. SMITH of Texas (for himself and Mr. BERMAN) (both by request) introduced the following bill; which was referred to the Committee on the Judiciary

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A BILL

To amend title 35, United States Code, with respect to patent fees, 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. SHORT TITLE.

This Act may be cited as the ''United States Patent and Trademark Fee Modernization Act of 2003''.

SEC. 2. FEES FOR PATENT SERVICES.

(a) GENERAL PATENT FEES.—Section 41(a) of title 35, United States Code, is amended to read as follows:

''(a) GENERAL FEES.—The Director shall charge the following fees:

"(1) FILING AND BASIC NATIONAL FEES.—

"(A) On filing each application for an original patent, except for design, plant, or provisional applications, $300.

"(B) On filing each application for an original design patent, $200.

"(C) On filing each application for an original plant patent, $200.

"(D) On filing each provisional application for an original patent, $200.

"(E) On filing each application for the reissue of a patent, $300.

"(F) The basic national fee for each international application filed under the treaty defined in section 351(a) of this title entering the national state under section 371 of this title, $300.

"(G) In addition, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, for any application the specification and drawings of which exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium), $250 for each additional 50 sheets of paper (or equivalent as

prescribed by the Director if filed in an electronic medium) or fraction thereof.

"(2) EXCESS CLAIMS FEES.—In addition to the fee specified in paragraph (1)—

"(A) on filing or on presentation at any other time, $200 for each claim in independent form in excess of 3;

"(B) on filing or on presentation at any other time, $50 for each claim (whether dependent or independent) in excess of 20; and

"(C) for each application containing a multiple dependent claim, $360.

For the purpose of computing fees under this paragraph, a multiple dependent claim referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any claim that is canceled before an examination on the merits, as prescribed by the Director, has been made of the application under section 131 of this title. Errors in payment of the additional fees under this paragraph

may be rectified in accordance with regulations prescribed by the Director.

"(3) EXAMINATION FEES.—

"(A) For examination of each application for an original patent, except for design, plant, provisional, or international applications, $200.

"(B) For examination of each application for an original design patent, $130.

"(C) For examination of each application for an original plant patent, $160.

"(D) For examination of the national stage of each international application, $200.

"(E) For examination of each application for the reissue of a patent, $600.

The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who

files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(4) ISSUE FEES.—

"(A) For issuing each original patent, except for design or plant patents, $1,400.

"(B) For issuing each original design patent, $800.

"(C) For issuing each original plant patent, $1,100.

"(D) For issuing each reissue patent, $1,400.

"(5) DISCLAIMER FEE.—On filing each disclaimer, $130.

"(6) APPEAL FEES.—

"(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, $500.

"(B) In addition, on filing a brief in support of the appeal, $500, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, $1,000.

"(7) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,500, unless the petition is filed under section 133 or 151 of this title, in which case the fee shall be $500.

"(8) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

"(A) on filing a first petition, $120;

"(B) on filing a second petition, $330; and

"(C) on filing a third or subsequent petition, $570.".

(b) PATENT MAINTENANCE FEES.—Section 41(b) of title 35, United States Code, is amended to read as follows:

"(b) MAINTENANCE FEES.—The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

"(1) 3 years and 6 months after grant, $900.

"(2) 7 years and 6 months after grant, $2,300.

"(3) 11 years and 6 months after grant, $3,800.

Unless payment of the applicable maintenance fee is received in the United States Patent and Trademark Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period. The Director may require the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.".

(c) PATENT SEARCH FEES.—Section 41(d) of title 35, United States Code, is amended to read as follows:

"(d) PATENT SEARCH AND OTHER FEES.—

"(1) PATENT SEARCH FEES.—(A) The Director shall charge a fee for the search of each application for a patent, except for provisional applications. The Director shall establish the fees charged under this paragraph to recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for patent.

"(B) For purposes of determining the fees to be established under this paragraph, the cost to the Office of causing a search of an application to be made by Office personnel shall be deemed to be—

"(i) $500 for each application for an original patent, except for design, plant, provisional, or international applications;

"(ii) $100 for each application for an original design patent;

"(iii) $300 for each application for an original plant patent;

"(iv) $500 for the national stage of each international application; and

"(v) $500 for each application for the reissue of a patent.

"(C) The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application.

"(D) The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(2) OTHER FEES.—The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that the Director shall charge the following fees for the following services:

"(A) For recording a document affecting title, $40 per property.

"(B) For each photocopy, $.25 per page.

"(C) For each black and white copy of a patent, $3.

The yearly fee for providing a library specified in section 12 of this title with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.".

(d) ADJUSTMENTS.—Section 41(f) of title 35, United States Code, shall apply to the fees established under the amendments made by this section, beginning in fiscal year 2005.

(e) CONFORMING AMENDMENTS.—

(1) Section 41 of title 35, United States Code, is amended—

(A) in subsection (c), by striking ''(c)(1)'' and inserting ''(c) LATE PAYMENT OF FEES.—(1)'';

(B) in subsection (e), by striking ''(e)'' and inserting ''(e) WAIVERS OF CERTAIN FEES.—'';

(C) in subsection (f), by striking ''(f)'' and inserting ''(f) ADJUSTMENTS IN FEES.—'';

(D) in subsection (g), by striking ''(g)'' and inserting ''(g) EFFECTIVE DATES OF FEES.—'';

(E) in subsection (h), by striking ''(h)(1)'' and inserting ''(h) REDUCTIONS IN FEES FOR CERTAIN ENTITIES.—(1)''; and

(F) in subsection (i), by striking ''(i)(1)'' and inserting ''(i) SEARCH SYSTEMS.—(1)''.

(2) Section 119(e)(2) of title 35, United States Code, is amended by striking ''subparagraph (A) or (C) of''.

SEC. 3. ADJUSTMENT OF TRADEMARK FEES.

(a) FEE FOR FILING APPLICATION.—The fee under section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)) for filing an electronic application for the registration of a trademark shall be $325. If the trademark application is filed on paper, the fee shall be $375. The Director may reduce the fee for filing an electronic application for the registration of a trademark to $275 for any applicant who prosecutes the application through electronic means under such conditions as may be prescribed by the Director. Beginning in fiscal year 2005, the provisions of the second and third sentences of section 31(a) of the Trademark Act of 1946 shall apply to the fees established under this section.

(b) REFERENCE TO TRADEMARK ACT OF 1946.—For purposes of this section, the ''Trademark Act of 1946'' refers to the Act entitled ''An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes.'', approved July 5, 1946 (15 U.S.C. 1051 et seq.).

SEC. 4. CORRECTION OF ERRONEOUS NAMING OF OFFICER.

(a) CORRECTION.—Section 13203(a) of Public Law 107–273 (116 Stat. 1902) is amended—

(1) in the subsection heading, by striking ''COMMISSIONER'' and inserting ''DIRECTOR''; and

(2) in paragraphs (1) and (2), by striking ''Commissioner'' each place it appears and inserting ''Director''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall be effective as of the date of the enactment of Public Law 107–273.

SEC. 5. EFFECTIVE DATE, APPLICABILITY, AND TRANSITIONAL PROVISION.

(a) EFFECTIVE DATE.—Except as provided in section 4 and this section, this Act and the amendments made by this Act shall take effect on October 1, 2003, or the date of the enactment of this Act, whichever is later.

(b) APPLICABILITY.—

(1)(A) Except as provided in subparagraphs (B) and (C), the amendments made by section 2 shall apply to all patents, whenever granted, and to all patent applications pending on or filed after the effective date set forth in subsection (a) of this section.

(B)(i) Except as provided in clause (ii), sections 41(a)(1), 41(a)(3), and 41(d)(1) of title 35, United States Code, as amended by this Act, shall apply only to—

(I) applications for patents filed under section 111(a) of title 35, United States Code, on

or after the effective date set forth in subsection (a) of this section, and

(II) international applications entering the national stage after compliance with section 371 of title 35, United States Code, on or after the effective date set forth in subsection (a) of this section.

(ii) Section 41(a)(1)(D) of title 35, United States Code as amended by this Act, shall apply only to applications for patent filed under section 111(b) of title 35, United States Code, before, on, or after the effective date set forth in subsection (a) of this section in which the filing fee specified in section 41 of title 35, United States Code, was not paid before the effective date set forth in subsection (a) of this section.

(C) Section 41(a)(2) of title 35, United States Code, as amended by this Act, shall apply only to the extent that the number of excess claims, after giving effect to any cancellation of claims, is in excess of the number of claims for which the excess claims fee specified in section 41 of title 35, United States Code, was paid before the effective date set forth in subsection (a) of this section.

(2) The amendments made by section 3 shall apply to all applications for the registration of a trademark filed or amended on or after the effective date set forth in subsection (a) of this section.

(c) TRANSITIONAL PROVISIONS.—

(1) SEARCH FEES.—During the period beginning on the effective date set forth in subsection (a) of this section and ending on the date on which the Director establishes search fees under the authority provided in section 41(d)(1) of title 35, United States Code, the Director shall charge—

(A) for the search of each application for an original patent, except for design, plant, provisional, or international application, $500;

(B) for the search of each application for an original design patent, $100;

(C) for the search of each application for an original plant patent, $300;

(D) for the search of the national stage of each international application, $500; and

(E) for the search of each application for the reissue of a patent, $500.

(2) TIMING OF FEES.—The provisions of section 111(a)(3) of title 35, United States Code, relating to the payment of the fee for filing the applica-

tion shall apply to the payment of the fee specified in paragraph (1) with respect to an application filed under section 111(a) of title 35, United States Code. The provisions of section 371(d) of title 35, United States Code, relating to the payment of the national fee shall apply to the payment of the fee specified in paragraph (1) with respect to an international application.

(3) REFUNDS.—The Director may by regulation provide for a refund of any part of the fee specified in paragraph (1) for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of title 35, United States Code, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

SEC. 6. DEFINITION.

In this Act, the term ''Director'' means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

SEC. 7. CLERICAL AMENDMENT.

Subsection (c) of section 311 of title 35, Untied States Code, is amended by aligning the text with the text of subsection (a) of such section.

○

Chairman SENSENBRENNER. And the subcommittee amendment in the nature of a substitute, which the Members have before them, will be considered as read, considered as the original text for purposes of amendment, and open for amendment at any point.

[The amendment in the nature of a substitute follows:]

AMENDMENT IN THE NATURE OF A SUBSTITUTE TO H.R. 1561 AS REPORTED BY THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the ''United States Patent and Trademark Fee Modernization Act of 2003''.

SEC. 2. FEES FOR PATENT SERVICES.

(a) GENERAL PATENT FEES.—Section 41(a) of title 35, United States Code, is amended to read as follows:

''(a) GENERAL FEES.—The Director shall charge the following fees:

''(1) FILING AND BASIC NATIONAL FEES.—

''(A) On filing each application for an original patent, except for design, plant, or provisional applications, $300.

''(B) On filing each application for an original design patent, $200.

''(C) On filing each application for an original plant patent, $200.

"(D) On filing each provisional application for an original patent, $200.

"(E) On filing each application for the reissue of a patent, $300.

"(F) The basic national fee for each international application filed under the treaty defined in section 351(a) of this title entering the national stage under section 371 of this title, $300.

"(G) In addition, excluding any sequence listing or computer program listing filed in an electronic medium as prescribed by the Director, for any application the specification and drawings of which exceed 100 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium), $250 for each additional 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium) or fraction thereof.

"(2) EXCESS CLAIMS FEES.—In addition to the fee specified in paragraph (1)—

"(A) on filing or on presentation at any other time, $200 for each claim in independent form in excess of 3;

"(B) on filing or on presentation at any other time, $50 for each claim (whether dependent or independent) in excess of 20; and

"(C) for each application containing a multiple dependent claim, $360.

For the purpose of computing fees under this paragraph, a multiple dependent claim referred to in section 112 of this title or any claim depending therefrom shall be considered as separate dependent claims in accordance with the number of claims to which reference is made. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any claim that is canceled before an examination on the merits, as prescribed by the Director, has been made of the application under section 131 of this title. Errors in payment of the additional fees under this paragraph may be rectified in accordance with regulations prescribed by the Director.

"(3) EXAMINATION FEES.—

"(A) For examination of each application for an original patent, except for design, plant, provisional, or international applications, $200.

"(B) For examination of each application for an original design patent, $130.

"(C) For examination of each application for an original plant patent, $160.

"(D) For examination of the national stage of each international application, $200.

"(E) For examination of each application for the reissue of a patent, $600.

The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application. The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(4) ISSUE FEES.—

"(A) For issuing each original patent, except for design or plant patents, $1,400.

"(B) For issuing each original design patent, $800.

"(C) For issuing each original plant patent, $1,100.

"(D) For issuing each reissue patent, $1,400.

"(5) DISCLAIMER FEE.—On filing each disclaimer, $130.

"(6) APPEAL FEES.—

"(A) On filing an appeal from the examiner to the Board of Patent Appeals and Interferences, $500.

"(B) In addition, on filing a brief in support of the appeal, $500, and on requesting an oral hearing in the appeal before the Board of Patent Appeals and Interferences, $1,000.

"(7) REVIVAL FEES.—On filing each petition for the revival of an unintentionally abandoned application for a patent, for the unintentionally delayed payment of the fee for issuing each patent, or for an unintentionally delayed response by the patent owner in any reexamination proceeding, $1,500, unless the

petition is filed under section 133 or 151 of this title, in which case the fee shall be $500.

"(8) EXTENSION FEES.—For petitions for 1-month extensions of time to take actions required by the Director in an application—

"(A) on filing a first petition, $120;

"(B) on filing a second petition, $330; and

"(C) on filing a third or subsequent petition, $570.".

(b) PATENT MAINTENANCE FEES.—Section 41(b) of title 35, United States Code, is amended to read as follows:

"(b) MAINTENANCE FEES.—The Director shall charge the following fees for maintaining in force all patents based on applications filed on or after December 12, 1980:

"(1) 3 years and 6 months after grant, $900.

"(2) 7 years and 6 months after grant, $2,300.

"(3) 11 years and 6 months after grant, $3,800.

Unless payment of the applicable maintenance fee is received in the United States Patent and Trademark Office on or before the date the fee is due or within a grace period of 6 months thereafter, the patent will expire as of the end of such grace period. The Director may require

the payment of a surcharge as a condition of accepting within such 6-month grace period the payment of an applicable maintenance fee. No fee may be established for maintaining a design or plant patent in force.''.

(c) PATENT SEARCH FEES.—Section 41(d) of title 35, United States Code, is amended to read as follows:

''(d) PATENT SEARCH AND OTHER FEES.—

''(1) PATENT SEARCH FEES.—(A) The Director shall charge a fee for the search of each application for a patent, except for provisional applications. The Director shall establish the fees charged under this paragraph to recover an amount not to exceed the estimated average cost to the Office of searching applications for patent either by acquiring a search report from a qualified search authority, or by causing a search by Office personnel to be made, of each application for patent.

''(B) For purposes of determining the fees to be established under this paragraph, the cost to the Office of causing a search of an application to be made by Office personnel shall be deemed to be—

''(i) $500 for each application for an original patent, except for design, plant, provisional, or international applications;

"(ii) $100 for each application for an original design patent;

"(iii) $300 for each application for an original plant patent;

"(iv) $500 for the national stage of each international application; and

"(v) $500 for each application for the reissue of a patent.

"(C) The provisions of section 111(a)(3) of this title relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in this paragraph with respect to an application filed under section 111(a) of this title. The provisions of section 371(d) of this title relating to the payment of the national fee shall apply to the payment of the fee specified in this paragraph with respect to an international application.

"(D) The Director may by regulation provide for a refund of any part of the fee specified in this paragraph for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of this title, and for any applicant who provides a search report that meets the conditions prescribed by the Director.

"(2) OTHER FEES.—The Director shall establish fees for all other processing, services, or materials relating to patents not specified in this section to recover the estimated average cost to the Office of such processing, services, or materials, except that the Director shall charge the following fees for the following services:

"(A) For recording a document affecting title, $40 per property.

"(B) For each photocopy, $.25 per page.

"(C) For each black and white copy of a patent, $3.

The yearly fee for providing a library specified in section 12 of this title with uncertified printed copies of the specifications and drawings for all patents in that year shall be $50.".

(d) ADJUSTMENTS.—Section 41(f) of title 35, United States Code, shall apply to the fees established under the amendments made by this section, beginning in fiscal year 2005.

(e) CONFORMING AMENDMENTS.—

(1) Section 41 of title 35, United States Code, is amended—

(A) in subsection (c), by striking ''(c)(1)'' and inserting ''(c) LATE PAYMENT OF FEES.—(1)'';

(B) in subsection (e), by striking ''(e)'' and inserting ''(e) WAIVERS OF CERTAIN FEES.—'';

(C) in subsection (f), by striking ''(f)'' and inserting ''(f) ADJUSTMENTS IN FEES.—'';

(D) in subsection (g), by striking ''(g)'' and inserting ''(g) EFFECTIVE DATES OF FEES.—'';

(E) in subsection (h), by striking ''(h)(1)'' and inserting ''(h) REDUCTIONS IN FEES FOR CERTAIN ENTITIES.—(1)''; and

(F) in subsection (i), by striking ''(i)(1)'' and inserting ''(i) SEARCH SYSTEMS.—(1)''.

(2) Section 119(e)(2) of title 35, United States Code, is amended by striking ''subparagraph (A) or (C) of''.

SEC. 3. ADJUSTMENT OF TRADEMARK FEES.

(a) FEE FOR FILING APPLICATION.—The fee under section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)) for filing an electronic application for the registration of a trademark shall be $325. If the trademark application is filed on paper, the fee shall be $375. The Director may reduce the fee for filing an electronic appli-

cation for the registration of a trademark to $275 for any applicant who prosecutes the application through electronic means under such conditions as may be prescribed by the Director. Beginning in fiscal year 2005, the provisions of the second and third sentences of section 31(a) of the Trademark Act of 1946 shall apply to the fees established under this section.

(b) REFERENCE TO TRADEMARK ACT OF 1946.—For purposes of this section, the ''Trademark Act of 1946'' refers to the Act entitled ''An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes.'', approved July 5, 1946 (15 U.S.C. 1051 et seq.).

SEC. 4. CORRECTION OF ERRONEOUS NAMING OF OFFICER.

(a) CORRECTION.—Section 13203(a) of Public Law 107–273 (116 Stat. 1902) is amended—

(1) in the subsection heading, by striking ''COMMISSIONER'' and inserting ''DIRECTOR''; and

(2) in paragraphs (1) and (2), by striking ''Commissioner'' each place it appears and inserting ''Director''.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall be effective as of the date of the enactment of Public Law 107–273.

SEC. 5. PATENT AND TRADEMARK OFFICE FUNDING.

Section 42 of title 35, United States Code, is amended—

(1) in subsection (b), by striking ''Appropriation''; and

(2) in subsection (c), in the first sentence—

(A) by striking ''To the extent'' and all that follows through ''fees'' and inserting ''Fees''; and

(B) by striking ''shall be collected by and shall be available to the Director'' and inserting ''shall be collected by the Director and shall be available until expended''.

SEC. 6. EFFECTIVE DATE, APPLICABILITY, AND TRANSITIONAL PROVISION.

(a) EFFECTIVE DATE.—Except as provided in section 4 and this section, this Act and the amendments made by this Act shall take effect on October 1, 2003, or the date of the enactment of this Act, whichever is later.

(b) APPLICABILITY.—

(1)(A) Except as provided in subparagraphs (B) and (C), the amendments made by section 2 shall apply to all patents, whenever granted, and to all patent applications pending on or filed after the effective date set forth in subsection (a) of this section.

(B)(i) Except as provided in clause (ii), sections 41(a)(1), 41(a)(3), and 41(d)(1) of title 35, United States Code, as amended by this Act, shall apply only to—

(I) applications for patents filed under section 111(a) of title 35, United States Code, on or after the effective date set forth in subsection (a) of this section, and

(II) international applications entering the national stage under section 371 of title 35, United States Code, for which the basic national fee specified in section 41 of title 35, United States Code, was not paid before the effective date set forth in subsection (a) of this section.

(ii) Section 41(a)(1)(D) of title 35, United States Code as amended by this Act, shall apply only to applications for patent filed under section 111(b) of title 35, United States Code, before, on, or after the effective date set forth in subsection (a) of this section in which the filing fee specified in section 41 of title 35, United States Code, was not paid before the effective date set forth in subsection (a) of this section.

(C) Section 41(a)(2) of title 35, United States Code, as amended by this Act, shall apply only to the extent that the number of excess claims, after giving effect to any cancellation of claims, is in excess of the number of claims for which the excess claims fee specified in section 41 of title 35, United States Code, was paid before the effective date set forth in subsection (a) of this section.

(2) The amendments made by section 3 shall apply to all applications for the registration of a trademark filed or amended on or after the effective date set forth in subsection (a) of this section.

(c) TRANSITIONAL PROVISIONS.—

(1) SEARCH FEES.—During the period beginning on the effective date set forth in subsection (a) of this section and ending on the date on which the Director establishes search fees under the authority provided in section 41(d)(1) of title 35, United States Code, the Director shall charge—

(A) for the search of each application for an original patent, except for design, plant, provisional, or international application, $500;

(B) for the search of each application for an original design patent, $100;

(C) for the search of each application for an original plant patent, $300;

(D) for the search of the national stage of each international application, $500; and

(E) for the search of each application for the reissue of a patent, $500.

(2) TIMING OF FEES.—The provisions of section 111(a)(3) of title 35, United States Code, relating to the payment of the fee for filing the application shall apply to the payment of the fee specified in paragraph (1) with respect to an application filed under section 111(a) of title 35, United States Code. The provisions of section 371(d) of title 35, United States Code, relating to the payment of the national fee shall apply to the payment of the fee specified in paragraph (1) with respect to an international application.

(3) REFUNDS.—The Director may by regulation provide for a refund of any part of the fee specified in paragraph (1) for any applicant who files a written declaration of express abandonment as prescribed by the Director before an examination has been made of the application under section 131 of title 35, United States Code, and for any applicant

who provides a search report that meets the conditions prescribed by the Director.

(d) EXISTING APPROPRIATIONS.—The provisions of any appropriation Act that make amounts available pursuant to section 42(c) of title 35, United States Code, and are in effect on the effective date set forth in subsection (a) shall cease to be effective on that effective date.

SEC. 7. DEFINITION.

In this Act, the term ''Director'' means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

SEC. 8. CLERICAL AMENDMENT.

Subsection (c) of section 311 of title 35, United States Code, is amended by aligning the text with the text of subsection (a) of such section.

Chairman SENSENBRENNER. The Chair recognizes the gentleman from Texas, Mr. Smith, to strike the last word.

Mr. SMITH. Mr. Chairman, I move to strike the last word.

Chairman SENSENBRENNER. The gentleman is recognized for 5 minutes.

Mr. SMITH. Mr. Chairman, H.R. 1561 implements the Patent and Trademark Office's revised strategic business plan to transform the agency's operations. The bill incorporates a revised fee schedule previously submitted by the PTO that would generate an additional $201 million in revenue. This is the first step towards improving patent and trademark quality while reducing application backlogs and pendency at the agency. These goals are critical to the health of cutting edge industries and our economy. Americans lead the world in the production and export of intellectual property and related goods and services.

Time is money in the intellectual property world. If the PTO cannot issue quality patents and trademarks in a timely manner, than inventors and trademark filers are the losers. The strategic business plan will result in more jobs, a higher standard of living, and a consuming public that will benefit from patented products.

Because of the ongoing appropriations practice of using a portion of the PTO fee revenue to subsidize unrelated programs, the fee schedule factors in funding shortfalls that have resulted from revenue diversion. Fee diversion is regrettable and counterproductive. It needs to be addressed. In response, the subcommittee unanimously adopted an amendment at our markup that ends this practice by authorizing the PTO to keep all of the fee revenue it generates.

Finally, Mr. Chairman, I will offer an amendment on behalf of Mr. Berman and myself that addresses the issue of outsourcing the search function at PTO, an issue that has generated some concern among members and inventors. The amendment responds to this matter in a fair and bipartisan way and I urge the Members to support it and the bill as well.

Mr. Chairman, I yield back the balance of my time.

Chairman SENSENBRENNER. The gentleman from California, Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman. And I ask unanimous consent that my entire statement on this measure and the substitute as amended be included in the record.

Chairman SENSENBRENNER. Without objection.

Mr. BERMAN. Thank you. Mr. Chairman, thank you for bringing to markup H.R. 1561 today, and let me also thank Chairman Smith, who has worked very cooperatively with the minority on this as well as many other issues in our subcommittee, in putting together what I think is a very good legislative product reflected by this. I might also mention, I think a special word, one part of this issue the Chairman made reference to is the issue of patent fees and diversion, and former Chairman Coble, who is here, spent a great deal of time working on this issue as well, and sort of pioneered the first efforts to really try to deal with the problem of diversion of patent fees, and I think we greatly all appreciate his efforts in all of this.

But basically, this bill makes a serious, it's not an outrageous, but a serious increase in the fees that applicants for patents will

pay, probably averaging around 15 percent that will generate an additional $200 million. And the folks who are most impacted by those increased fees, support it, but only on one condition, that that additional revenue goes to deal with all the fundamental problems that the Patent Office now faces. Everyone knows the Patent Office has been losing ground for some time, and it finds itself in a near crisis situation. It faces allegations of issuing poor quality patents of diminishing value, an enormous backlog of applications, ever increasing pendency and an overburdened examining corps.

So faced with this, Congress directed the PTO to develop a strategic plan to resolve these problems, and these problems are at the heart of innovation and technology in this country, the heart of where our economy is going. Sensitive to the needs of the PTO, the user groups, as I mentioned, have agreed to support this fee increase, but only if this money is not diverted for general fund appropriations, because otherwise, it's only one thing. A fee increase is a tax on innovation and a tax on new technologies and new patents, having nothing to do with the more efficient functioning of the Patent Office, the reduction of backlogs, the improvement of patent quality. So in this legislation, as the Chairman mentioned, we have a very flat prohibition against any diversions to the general appropriations. That's not what this fee was for. And the impact of allowing this to continue will I think turn many of us against any fee increase at all. In other words, our support for this fee increase is conditioned on the money being able to be used by the Patent Office to implement a number of the reforms that Director Rogan, a former colleague of ours, is proposing to try and correct some of the ills faced by the growing, complicated nature of and number of patents being submitted for approval.

At this point, I think I won't go on with my statement, but that's the fundamental part. We'll have an amendment later on dealing with the issue of outsourcing on searches, and I yield back.

Ms. LOFGREN. Would the gentleman yield, rather than——

Mr. BERMAN. I'd be happy to yield.

Ms. LOFGREN. Just very quickly, I will certainly vote for this bill, but for years we have—and I think it's been unanimous on the Judiciary Committee—opposed the diversion of fees from this office. And the appropriators always thought better. We don't know whether the language in this bill is going to work. I'm willing to take a stab at it and to believe that it will.

But if we face again appropriators stealing the money, I'm going to introduce a bill to reverse the fee increase. If you talk to Jim Rogan privately, he will tell you how serious is the situation at the Patent Office and how desperately we need to provide the resources to upgrade our systems and the like.

I come from a county where the largest number of patents in the world are issued to someone in Santa Clara County. The Patent Office is the engine for the technology miracle that will shape and carry our economy forward. So I hope that we understand, and we should let the appropriators know, that this money is not even going to be there if they try and steal it again, and I thank the gentleman for yielding.

Chairman SENSENBRENNER. The gentleman's time has expired. Without objection, all Members may place opening statements in the record at this point.

Chairman SENSENBRENNER. Are there amendments?

Mr. SMITH. Mr. Chairman?

Chairman SENSENBRENNER. The gentleman from Texas.

Mr. SMITH. I have an amendment at the desk.

Chairman SENSENBRENNER. The clerk will report the amendment.

The CLERK. Amendment to the Amendment in the Nature of a Substitute to H.R. 1561 Offered by Mr. Smith of Texas and Mr. Berman. Page 8, the following——

Chairman SENSENBRENNER. Without objection, the amendment is considered as read, and the gentleman from Texas will be recognized for 5 minutes.

[Mr. Smith and Mr. Berman's amendment follows:]

AMENDMENT TO THE AMENDMENT IN THE NATURE OF A SUBSTITUTE TO H.R. 1561 OFFERED BY MR. SMITH OF TEXAS AND MR. BERMAN

Page 8, add the following after line 25:

"(E) For purposes of subparagraph (A), a 'qualified search authority' may not include a commercial entity unless—

"(i) the Director conducts a pilot program of limited scope, conducted over a period of not more than 18 months, which demonstrates that searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications—

"(I) are accurate; and

"(II) meet or exceed the standards of searches conducted by and used by the Patent and Trademark Office during the patent examination process;

"(ii) the Director submits a report on the results of the pilot program to the Congress and the Patent Public Advisory Committee that includes—

"(I) a description of the scope and duration of the pilot program;

"(II) the identity of each commercial entity participating in the pilot program;

"(III) an explanation of the methodology used to evaluate the accuracy and quality of the search reports;

"(IV) an assessment of the effects that the pilot program, as compared to searches conducted by the Patent and Trademark Office, had and will have on—

"(aa) patentability determinations:

"(bb) productivity of the Patent and Trademark Office;

"(cc) costs to the Patent and Trademark Office;

"(dd) costs to patent applicants; and

"(ee) other relevant factors;

"(iii) the Patent Public Advisory Committee reviews and analyzes the Director's report under clause (ii) and the results of the pilot program and submits a separate report on its analysis to the Director and the Congress that includes—

"(I) an independent evaluation of the effects that the pilot program, as compared to searches conducted by the Patent and

Trademark Office, had and will have on the factors set forth in clause (ii)(IV); and

''(II) an analysis of the reasonableness, appropriateness, and effectiveness of the methods used in the pilot program to make the evaluations required under clause (ii)(IV); and

''(iv) the Congress does not, during the 1-year period beginning on the date on which the Patent Public Advisory Committee submits its report to the Congress under clause (iii), enact a law prohibiting searches by commercial entities of the available prior art relating to the subject matter of inventions claimed in patent applications.

Mr. SMITH. Thank you, Mr. Chairman. I offer this amendment on behalf of the Ranking Member, Mr. Berman, and myself. It addresses the desire of the Patent and Trademark Office to test the possibility of outsourcing the search function of the agency to commercial entities, empowering the PTO Director to initiate a program to outsource the search function as part of the larger effort to make PTO a modern, productive and efficient Federal agency. Our Committee and the Appropriations Committee have documented the need for PTO to abandon business as usual routines and improve patent and trademark quality while reducing backlogs and pendency.

The House and Senate Appropriators have urged the agency in recent years to develop innovative management techniques and to shift PTO resources to high-priority areas. Allowing Director Rogan to test an outsourcing initiative supports the purpose of the agency's strategic business plan developed in response to congressional directives. This subcommittee should assist the Director in his efforts, not hinder him.

The agency, Congress and the user groups whose members pay for PTO services, all want to improve PTO operations. There is no way that the agency would condone the wholesale use of outsourcing if the practice proved detrimental to its operations. Congress and our Committee in particular would never abandon our oversight responsibilities and permit such an occurrence. The user groups which endorse the strategic plan and are not opposed to pilot testing outsourcing will always offer critical commentary when necessary.

While permitting the Director to initiate limited outsourcing activity, the amendment places constraints on its use. It permits the Director to conduct a pilot program within an 18-month period to determine if commercial entities can perform the search function by producing accurate results that meet or exceed current PTO standards.

At the conclusion of the program the Director must them submit a report on the results to the Patent Public Advisory Committee, an independent entity that evaluates PTO operations on a biennial basis, as well as to the Congress. The report must address a number of detailed criteria such as methodology, cost and productivity for evaluation by the Advisory Committee and Congress. The Advisory Committee must then submit its own report to the Director and Congress as to the merits of outsourcing relative to PTO standards. Once the Advisory Committee report is completed, Congress will have an entire year, if it desires, to limit or prohibit the wholesale outsourcing of searches.

Mr. Chairman, this amendment is a fair, balanced and bipartisan response to those questions raised about the efficacy of outsourcing the search function. I urge the Members of the Committee to support the amendment.

And before I yield back the balance of my time, I do want to thank Mr. Berman for helping to work out a compromise on the outsourcing and for coming up with a good idea on the pilot program, and we appreciate his input and his suggestions.

And with that, I'll yield back the balance of my time.

Chairman SENSENBRENNER. The gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman. I join with the Chairman in supporting this amendment. One of the more controversial parts of Director Rogan's proposals is the outsourcing of these searches for prior art. A number of people who are familiar with the patent process tell me that an examiner needs to be involved himself or herself in that prior art search to fully understand and familiarize himself with what the patent involves and the whole question of the issues of whether or not the invention is novel and all the other standards that go into granting a patent. The compromise here is to try this on a pilot basis with an independent evaluation. I do say to the Patent Office, this is supposed to be a pilot. This is not we do 99 percent of what we want to do system wide and call it a pilot. It's a pilot of limited scope and limited duration, evaluated by an objective and independent body.

And then if Congress decides as a result of that survey they want to stop it from happening, we can initiate legislation to do so, but nothing in this amendment keeps the Patent Office from going ahead if and when the independent evaluation says this does make sense, this will save money, this will give examiners more time to work on the applications and allow faster processing of them without reducing patent quality.

I yield back, Mr. Chairman.

Chairman SENSENBRENNER. The question is on the amendment offered by the gentleman from Texas, Mr. Smith. Those in favor will say aye.

Opposed, no.

The ayes appear to have it. The ayes have it. The amendment is agreed to. Are there further amendments?

Mr. COBLE. Mr. Chairman?

Chairman SENSENBRENNER. Gentleman from North Carolina.

Mr. COBLE. Move to strike the last word.

Chairman SENSENBRENNER. The gentleman is recognized for 5 minutes.

Mr. COBLE. And I promise you, Mr. Chairman, I won't take 5 minutes. I want to commend Chairman Smith and Ranking Member Berman for including the matter of diversion in this bill, and I thank Mr. Berman for his generous comments. This is an issue that has attracted my interest for a long time. The diversion of fees from the Patent and Trademark Office, Mr. Chairman and colleagues, continues to be a problem that plagues the PTO, and I am pleased that Mr. Berman and Mr. Smith have seen fit to include this in the bill, and I hope that we can get a firm handle on it before the end of this session.

And I thank the Chairman and yield back my time.

Chairman SENSENBRENNER. Are there further amendments?

[No response.]

Chairman SENSENBRENNER. The question is on agreeing to the substitute of the subcommittee. Those in favor will say aye.

Opposed, no.

The ayes appear to have it. The ayes have it, and the amendment in the nature of a substitute is agreed to.

A reporting quorum is not present. Without objection, the previous question is ordered on reporting the bill, and we will vote on that question as soon as 19 Members appear.

[Intervening business.]

Chairman SENSENBRENNER. A reporting quorum is present, and the Chair will now go to the motion to report the bill H.R. 1561 favorably, the "United States Patent and Trademark Fee Modernization Act of 2003." Those in favor of reporting this bill favorably will say aye.

Opposed, no.

The ayes appear to have it. The ayes have it, and the motion to report favorably is agreed to. Without objection, the bill will be reported favorably to the House in the form of a single amendment in the nature of a substitute, incorporating the amendments adopted here today. Without objection, the Chairman is authorized to move to go to conference pursuant to House rules. Without objection, the staff is directed to make any technical and conforming changes, and all Members will be given 2 days as provided by House rules in which to submit additional dissenting, supplemental or minority views.

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