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## "MALFUNCTIONING" PATENT SYSTEM NECESSITATES INDEPENDENCE FOR PTO

According to Representative Thomas F. Railsback (R-Ill.), establishing the Patent and Trademark Office as an independent agency "would breathe new life and energy into an important agency which we have all but forgotten." Separation of the PTO from the Commerce Department, he believes, will improve communication and understanding between the PTO and Congress, boost employee morale, and permit the Commissioner to properly manage the Office.

As previously reported (see 493 PTCJ AA-1), the House Judiciary Committee recently approved the Administration's patent policy bill, H.R. 6933, but in doing so tacked on an amendment by Railsback that would make the Patent and Trademark Office as an independent agency. In connection with this amendment, Railsback has released the following statement:

> [Text] I have received many letters * * * from inventors, from business, from patent attorneys, complaining about the present state of the Patent Office. Every living former Patent Commissioner (8) supports this amendment. All patent owners who have commented to the subcommittee support my amendment, for example, the Chemical Manufacturers Association, the Small Business Council, and numerous individual businessmen and corporations. Also, the U.S. Trademark Association. There is good reason for their concern and support:
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> - Presently it takes 22 months for a patent to issue;
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> - From 2 to 26 percent of the patents are missing from every subclass in the patent office files;
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> - Only a small percentage of the files are covered by a security system to prevent theft and misfilings;
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> - The Patent and Trademark Office is not able to hire the needed personnel to fill existing vacancies;
>
> - The number of trademark examiners in 1980 will be the same as in the mid-70's, yet they are expected to process 65 percent more applications.

### WHAT PROBLEM IS TO BE SOLVED?

Technological innovation in the U. S. is declining at an alarming rate as President Carter and many members of Congress have recognized.

Only 62% of the patents issued by the U.S. government go to Americans. In 1965, 80% did. In 1979, 20% of all patents issued in the U.S. were awarded to Japan and the Federal Republic of Germany, and 38% in all went to foreigners. In 1965, 20% did.

American businessmen and inventors are losing confidence in the U.S. Patent System. The purpose of the Patent System is to give economic stimulus to industry to invest in technological innovation. But the system is malfunctioning, primarily because the U.S. Patent and Trademark Office is woefully unable to perform its mission.

As former Commissioner Banner said, "the PTO is in 'dire straits' and soon the U.S. will have a 'second rate' patent system".

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WHY THE PTO IS INEFFICIENT

Lack of proper funding. The budget has been regularly cut for the past decade. For example, the number of patent examiners in 1975 was 1,200 and in 1979 was 1,000. Time to study an application, now a 15 hour average, is the lowest in the history of the office.

Lack of Leadership and Management. Since 1962, there have been seven different PTO Commissioners and nearly three years of vacancy in the position. This "revolving door" is extremely harmful to the office in terms of morale, planning and management.

Lack of Interest and Understanding by Congress. There are no effective lines between the PTO and Congress or between the PTO and OMB, both on the substantive patent and trademark laws and on funding of the office.

HOW DID THIS HAPPEN?

In 1948, the Committee on Patents of the House and Senate were abolished after 112 years of existance.

In 1950, the powers of the Patent Commissioner were vested in the Secretary of Commerce pursuant to the Hoover Commission report.

In 1962, the Patent Commissioner was downgraded from an Assistant Secretary level to a position where he reports to an Assistant Secretary.

The Results. (a) The PTO is cut off from Congress and the Secretary of Commerce, and (b) the Office of the Patent Commissioner was diminished in stature and influence.

HOW DOES MAKING THE PTO INDEPENDENT HELP?

1. The problem is communication and understanding. If the PTO was independent, the lines of contact with OMB and Congress would be direct. Every single piece of information eminating from the PTO would no longer be filtered, delayed, and altered through the Department of Commerce.

2. The Office morale, and particularly that of the 1,000 professional patent examiners, would be significantly improved. The Office of the Commissioner would attract able persons who would tend to remain.

3. The PTO Commissioner could manage the PTO.

The PTO Commissioner could work directly with Congress to make the office efficient.

The PTO Commissioner would be in a position to assume and advise other agencies of the Executive Branch relative to the patent system.

HOW MUCH WOULD IT COST?

No additional manpower or facilities are involved. Commissioner Banner has estimated the cost at less than $150,000 a year to assume minor administrative services now performed in Commerce.

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My amendment does two things: 1) it would make the Patent and Trademark Office independent and 2) it creates a 6-year term for the Office of the Commissioner. It does not create any new bureaucratic entity. The employees already exist, the office already exist, and the budget already exists. My amendment would breathe new life and energy into an important agency which we have all but forgotten. [End Text]

(Ed. Note: A conforming amendment offered by Railsback would also instruct the Comptroller General to submit a report to Congress analyzing "the desirability of merging the Copyright Office and the Copyright Royalty Tribunal with the Patent and Trademark Office." There is no immediate call for merging these offices, however.)

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## LICENSE UNDER ISSUED PATENT CANNOT REQUIRE REDUCED ROYALTIES IN EVENT OF INVALIDATION

While trade secrecy principles may make it possible to collect reduced royalties from a licensee if a patent application does not mature into a patent, the U.S. Bankruptcy Court for Southern California makes clear that once a patent issues, it is illegal to require payment of reduced royalties in the event of invalidity. "[A]n alternative royalty provision may be appropriate in a patent pending situation, [but] it has no place in a case * * * where the patent [has] already been granted." (Grunewald v. Power Swing Partners, 7/30/80)

### Background

Plaintiff Grunewald owns a patent for an air resistance exerciser known as the "Power Swing." Defendant Power Swing Partners was formerly licensed to practice the invention. The license agreement provided that if the patent were declared invalid the licensee would be required to pay a reduced royalty on each exerciser for use of plaintiff's trademark "Power Swing." The license was terminable for nonpayment of royalties upon 60 days notice.

On June 11, 1979, at which time royalty payments were overdue, Grunewald delivered a termination notice to defendant. Although plaintiff was hopeful that the problem could be resolved, it soon became apparent that he would have to negotiate a new marketing arrangement with another company.

On October 8th, Grunewald wrote to Power Swing informing them that he had entered into an exclusive license arrangement with Sunland Marketing. Despite this notice, defendant continued to manufacture and sell the "Power Swing," prompting plaintiff to file suit for breach of contract and trademark infringement. Defendant counterclaimed against Grunewald and Sunland for patent and trademark infringement, and then sought protection under Chapter 11 of the Bankruptcy Act.

### Decision

Defendant challenged the validity of the patent on grounds of anticipation and obviousness, but Grunewald responded that validity is irrelevant because the license agreement requires royalties to be paid even if the patent is invalid. Plaintiff cited Aronson v. Quick Point Pencil Co., 440 U.S. 257, 201 USPQ 1 (1979), 418 PTCJ AA-1, F-1, in support of its argument.

Though conceding that plaintiff's argument "is not without some force," Judge Meyers determines that "it overlooks the impact of Lear v. Adkins, 395 U.S. 653, [162 USPQ 1] (1969)."

[Text] In Lear, the Supreme Court held that a licensee of a patented invention could challenge the validity of the patent and would not be liable for accrued royalties if the patent was ultimately declared invalid. This decision was based upon the Court's conclusion that

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