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Jeffrey M. Samuels
George Washington University Law School

Linda B. Samuels
George Mason University

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The Trademark Office as a Government Corporation

Jeffrey M. Samuels*
Linda B. Samuels**

INTRODUCTION

As the Lanham Act¹ (“Lanham Act”) passes the half-century mark, it is time for Congress to cut the Patent and Trademark Office’s (“PTO’s”) Trademark Operations free from its ties to the agency’s Patent Operations, and provide it with the administrative freedom to respond to an ever-increasing workload and to function in a more business-like manner.² This goal could be achieved if Trademark Operations were recreated as a government corporation.

* Law Office of Jeffrey M. Samuels, P.C., Fairfax, VA; Professorial Lecturer in Law, George Washington University Law School. Colgate University, B.A. 1972; Albany Law School of Union College, J.D. 1975. Mr. Samuels is the government relations manager for the International Trademark Association (“INTA”). From November 1987 to January 1993, Jeffrey M. Samuels served as an Assistant Commissioner of Patents and Trademarks, in charge of trademarks, at the U.S. Patent and Trademark Office (“PTO”). He also served as Acting Commissioner of Patents and Trademarks from November 1989 to March 1990.

** Professor, Business Legal Studies, George Mason University, Fairfax, VA. Queens College of the City University of New York, B.A. 1970; State University of New York at Albany, M.A. 1971; University of Virginia, J.D. 1975.

The opinions expressed in this essay reflect the views of the authors, and are not necessarily the official position of the INTA.

1. Trademark Act of 1946, Pub. L. No. 79-489, 60 Stat. 427 (1994) (codified as amended at 15 U.S.C. §§ 1051-1127 (1994)).

2. The PTO is an agency of the United States Department of Commerce, and is headed by the Commissioner of Patents & Trademarks, who is also the Assistant Secretary of Commerce. *See* 35 U.S.C. § 1 (1994) (establishing the PTO within the Department of Commerce); *see also* 15 U.S.C. § 1511 (1994) (listing the PTO among the bureaus under the jurisdiction of the Department of Commerce). The PTO is divided into Patent Operations and Trademark Operations, each of which is directed by an Assistant Commissioner appointed by the President. 35 U.S.C. § 3 (1994).

During the recently concluded 104th Congress, four bills were introduced to amend the Lanham Act and other statutes to make the PTO a government corporation.³ It is expected that similar proposals will be introduced early in 1997. Of the four proposals, only the Hatch Bill⁴ would have provided the PTO's Trademark Operations ("Trademarks") with greater autonomy than it presently has vis-à-vis the PTO's Patent Operations ("Patents"). This Essay explains why the 105th Congress should remove Trademarks from the PTO, and establish a government corporation wholly devoted to those operations.

I. PROBLEMS FACING TRADEMARKS

Today, the PTO's Trademark Operations is barely able to keep its head above water. The number of applications is approaching 200,000 per year,⁵ and has been increasing in excess of ten percent annually for the past several years.⁶ Indeed, within the next year or so, the number of new

3. United States Intellectual Property Organization Act of 1995, S. 1961, 104th Cong., 1st Sess. (1995) (Hatch Bill); United States Intellectual Property Organization Act of 1995, H.R. 2533, 104th Cong., 1st Sess. (1995) (Administration Bill); Patent and Trademark Office Corporation Act of 1995, H.R. 1659, 104th Cong., 1st Sess. (1995) (Moorhead/Schroeder Bill); Patent and Trademark Office Reform Act of 1995, S. 1458, 104th Cong., 1st Sess. (1995) (Lautenberg Bill).

4. United States Intellectual Property Organization Act of 1995, S. 1961, 104th Cong., 1st Sess. (1995) (Hatch Bill).

5. The PTO received 155,376 trademark applications in fiscal year 1994, and 175,307 trademark applications in fiscal year 1995, an increase of more than 12 percent. U.S. DEPARTMENT OF COMMERCE, U.S. PATENT & TRADEMARK OFFICE, SETTING THE COURSE FOR OUR FUTURE: A PATENT & TRADEMARK OFFICE REVIEW: FISCAL YEAR 1995 101, 103 (1995) [hereinafter 1995 ANNUAL REPORT] (reporting 1995 data); U.S. DEPARTMENT OF COMMERCE, U.S. PATENT & TRADEMARK OFFICE, SETTING THE COURSE FOR OUR FUTURE: A PATENT & TM OFFICE REVIEW: FISCAL YEAR 1994 99 (reporting 1994 data). The PTO projects trademark applications will exceed 200,000 per year during fiscal year 1997. 1995 ANNUAL REPORT, *supra*, at 20-21. The fiscal year of the PTO is October 1 through September 30. Telephone interview with Karen Strohecker, Patent & Trademark Office (Nov. 22, 1996).

6. See 1995 ANNUAL REPORT, *supra* note 5, at 98 (reporting 12.8% growth in 1995, 11.2% growth in 1994, 11.6% growth in 1993, and 4.0% growth in 1992).

trademark applications is expected to exceed the number of new patent applications. While the volume of trademark applications has grown substantially, however, the number of new examiners and support personnel has lagged behind. Not surprisingly, Trademark Operations is therefore unable to meet the Congressional goal of bringing applications to first action within three months of receipt. Indeed, the length of application pendency is roughly double that congressional goal, with backlogged, lost, and misplaced files common.

Perhaps surprisingly, money is not the root of this problem. The PTO's Trademark Operations has been entirely user-fee funded since 1983. Trademarks currently has a surplus of approximately \$14 million, an amount which should be more than adequate to hire and train the personnel necessary to process the increased workload. Unfortunately, however, government-wide restraints on hiring prevent the agency from increasing its staff to meet demand.

In addition, the shackles imposed by government-wide laws, rules, and regulations concerning procurement and labor relations make no sense for an entirely self-funded agency that has a workload which is driven solely by the external needs of the business community.

II. TRADEMARKS SHOULD BE SEPARATED FROM PATENTS

Trademark Operations should be separated from Patent Operations to ensure that the issues of concern to Trademarks, whether from the standpoint of examination, legislation, personnel, finance, automation, or labor-management relations, are dealt with in a manner consistent with the best interests of Trademarks and of trademark owners. Too often in the past, this has not been the case.

Other than the fact that patents and trademarks are both broadly defined as "intellectual property," the two forms of

protection have little in common. Patents protect inventions; trademarks protect indications of origin. Patents are designed to promote innovation and technological progress. Trademarks are designed to protect the public against confusion, and to secure to the trademark owner the goodwill associated with its mark.

Patents represent ninety percent of the PTO's revenues,⁷ and, for virtually the entire history of the agency, the background of the Commissioner, the agency head, has been primarily in patent law. Indeed, it was not until 1975 that Congress renamed the agency from the "Patent Office" to the "Patent and Trademark Office."⁸ Furthermore, the workforce lacks commonality: while all trademark examiners are attorneys, most patent examiners are not—rather, they are engineers or scientists.

As a result of the dominance of Patent Operations, it is not surprising that the focus of the PTO has almost always been on patent issues. In addition, given the rapid technological developments in the computer, biotechnology, and other science-related industries—and the respective impacts of such developments on the agency's Patent Operations—the PTO faces ongoing challenges from the patent policy and patent examination standpoints. Moreover, in recent years, the top management of the PTO has also devoted considerable resources to issues relating to copyright policy.

The time and attention of the PTO's management are precious resources. With the number of significant patent and copyright issues now before the agency, it is likely that neither the Commissioner nor anyone at the Commerce Department, the parent organization of the PTO, will have sufficient time to resolve current trademark issues, and to pre-

7. During fiscal year 1995, patent fees represented 86.3%, trademark fees 10.0%, and other fees 3.7% of PTO total fee collections. *See* 1995 ANNUAL REPORT, *supra* note 5, at 77.

8. Act of Jan. 2, 1975, Pub. L. No. 93-596, § 3, 88 Stat. 1949 (1975) (codified at 35 U.S.C. § 1 (1994)).

pare Trademark Operations for the future. Although appointed by the President, the Assistant Commissioner for Trademarks has little more than a peripheral impact on issues other than trademark examination policy, due to the current management structure of the PTO. Issues such as automation, budgeting, legislation, and international affairs are primarily handled by career assistant commissioners, in conjunction with the agency head, for the benefit of the entire PTO, sometimes to the total exclusion of the Assistant Commissioner for Trademarks.

The result is that issues that primarily concern trademark law often fail to receive the attention they deserve, and issues related to trademark automation, budgeting, legislation, or international affairs tend to either get lost in the shuffle or delayed. For example, the PTO failed to draft legislation implementing the Trademark Law Treaty⁹ until nearly two years after the treaty was adopted.

In addition, the need to, or desirability of, adopting agency-wide policies in areas such as labor relations and automation, has worked to the detriment of Trademark Operations. Because of the relatively small size of the PTO's Trademark Operations, management often reasons that initiatives that benefit Patents must also benefit Trademarks, but not vice-versa. For example, Trademark's proposal to introduce a "Flexiplace" program for its examiners is being evaluated, to a large extent, on what impact such a program may have on Patents. This is so despite the fact that the background and composition of Trademark Examining Attorneys are much different than those of Patent Examiners and that, unlike patent files, trademark files are not kept confidential. Also, given the size of its surplus account, Trademarks sometimes finds itself in the role of "guinea pig"

9. Trademark Law Treaty (adopted at Geneva on Oct. 27, 1994), *in* WIPO, Industrial Property and Copyright, Industrial Property Laws and Treaties, Multilateral Treaties, Jan. 1995, at 1-12.

for projects in which Trademarks has little, if any, interest. Furthermore, a number of automation projects, including the electronic filing of trademark applications, have not proceeded as fast as they should, due, at least in part, to patent funding problems.

III. THE NEED FOR A GOVERNMENT CORPORATION

While divorcing the PTO's Trademark Operations from the Patent Operations will go a long way toward improvement, such a step, alone, is inadequate. To maximize the new Trademark Office's ability to operate effectively and efficiently, it is also necessary to free the office of many of the constraints imposed by federal laws, rules, regulations, and policies. This goal can be accomplished by converting the Trademark Office into a government corporation.

A government corporation is a federal government agency. Unlike most agencies, however, a government corporation may be exempt from a wide range of statutes and regulations, controlling everything from the procurement of office space, and computer hardware and software, to the manner in which employees are compensated and disciplined. The scope of the particular government corporation's powers and exemptions is determined by Congress through implementing legislation.

Government corporations are designed for those programs which: (1) are predominantly of a business nature; (2) produce revenue and are potentially self-sustaining; and (3) involve a large number of business-type transactions with the public. Insofar as Trademarks clearly is revenue-producing and self-sustaining, and is subject to business demands for its services, the volume of which it cannot control, Trademarks satisfies the basic criteria for conversion to a government corporation.

As a government corporation, the Trademark Office

would be better able to manage an increasing workload. For example, Congress could, and likely would, exempt this new government corporation from the Federal Workforce Restructuring Act,¹⁰ which limits the number of civilian personnel who may be employed by a federal agency. As a government corporation, the Trademark Office could also have the authority to retain and utilize its revenues for any of the purposes of the corporation. No longer would the office have to seek apportionment of its fees from the Office of Management and Budget. As a result, Trademarks would have the ability to hire the personnel necessary to provide timely and quality services to the public. Because the public already pays all of the costs through application fees, this power seems reasonable. Indeed, the current situation in which Trademark Operations is subject to government-wide hiring and spending restraints, even though it is 100 percent user-fee funded, is difficult to justify.

Furthermore, a properly drafted corporate charter would give the Trademark Office the flexibility to design a personnel system adapted to its own requirements. Trademark examiners, all of whom are attorneys, could be compensated at rates different than those set for other government employees. Presumably, this would help slow the revolving door between the public and private sectors and, over time, result in improved quality and productivity.

As a government corporation, the Trademark Office could also be exempt from the red tape and additional costs imposed by the Federal Property and Administrative Service Act¹¹ and the Public Buildings Act.¹² This exemption would enable the Office to procure property, including office space,

10. Federal Workforce Restructuring Act of 1994, Pub. L. No. 103-226, 108 Stat. 111 (1994) (codified at 5 U.S.C. § 5597 (1994)).

11. Federal Property and Administrative Services Act of 1994, Pub. L. No. 81-152, 63 Stat. 377 (1994) (codified at 41 U.S.C. §§ 251-260 (1994)).

12. Public Buildings Act of 1959, Pub. L. No. 86-249, § 2, 73 Stat. 479 (1959) (codified at 40 U.S.C. §§ 601-619 (1994)).

in a much more economical and timely fashion than the PTO currently can. For example, the General Services Administration currently assesses each federal agency a charge, upwards of thirty percent of the yearly rental cost, for the “service” it provides in negotiating leases and maintaining office space. This charge would be eliminated if the Trademark Office was exempt from the Public Buildings Act. In addition, as a government corporation, Trademarks could eventually leave rented offices for government-owned facilities, a move which could yield substantial savings over the long term. Moreover, if exempted from the complicated and time-consuming federal procurement process, the Trademark Office could purchase the latest in computer technology and other supplies in a much more timely fashion than is currently the case. Under current government-wide procurement regulations, delays of a year or more between order and delivery ensures that the office is always behind the technology curve. Disappointed bidders can protest awards, lengthening the time period further. Finally, the emphasis on the lowest bidder, regardless of qualification, has also been a problem.

The conversion of the Trademark Office into a government corporation would not eliminate congressional oversight. Congress would still have to review the corporation’s budgets, and approve any legislative changes that it proposes. Presumably, the head of the government corporation would be a presidential appointee, subject to confirmation by the Senate. In addition, a management advisory board of qualified individuals from the private sector would provide input on major policy initiatives, including any fee adjustments.

CONCLUSION

As the Lanham Act moves into “middle age,” it is time to evaluate whether the current organizational structure of the

U.S. Patent and Trademark Office serves the best interests of trademark owners and the general public. A strong case can be made that it does not, and that the Trademark Office may only solve its operational problems if it becomes independent of the Patent Office, and is permitted to operate as a government corporation. Trademark issues are increasingly complex, and require solutions customized to user needs. As a government corporation, the Trademark Office would have more latitude conceiving and implementing organizational change, with resultant improvements for users. Management efficiencies, which translate into cost savings to the public, are the only way to ensure access to the trademark system by small- and medium-sized businesses, and to keep user fees affordable for large corporations.