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Madame Chair and Members of the Committee:

Thank you for providing this opportunity to testify on the very important issue of protection of intellectual property.

We firmly believe that no single issue is more important in shaping the future growth and development of our economy, and the global economy, than developing and maintaining effective intellectual property protection.

While the Patent and Trademark Office (PTO) is responsible for examining and granting patents and registering trademarks, we also serve an important advisory role. The PTO advises the Administration and the Congress on all domestic and international intellectual property matters, including international agreements.

The PTO also works closely with the United States Trade Representative, U.S. Customs, the U.S. Copyright Office of the Library of Congress, the Departments of State and Justice and other Federal agencies to secure and expand protection of U.S. intellectual property throughout the world.

I would like to describe some of our ongoing efforts.

International Efforts

We continue to engage in substantive discussions and education efforts with intellectual property officials throughout the world. Just last week, the PTO and the World Intellectual Property Organization's (WIPO) Asia Bureau co-sponsored a study program on the enforcement of intellectual property rights for customs officers from 12 Asian countries, including China, India, Indonesia and Thailand. The officers received substantive briefings and participated in discussions on a wide range of border enforcement issues and the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).

Another enforcement program, again in cooperation with WIPO, will be held during the first two weeks of November. Participants will include intellectual property officials from over 15 countries.

PTO has also participated in programs for Russian prosecutors and judges (July 1999) and developed a new intellectual property enforcement training format to be used by other U.S. agencies and WIPO (July 1999). PTO also led programs on enforcement in Egypt and Kenya (spring and summer 1999).

Further, the 14th annual Visiting Scholars Program will be held the last two weeks of October. The program offers two weeks of classroom and hands-on study to intellectual property officials from approximately 15 countries. The participants gain a better understanding of the critical role of intellectual property protection in building strong, vital economies.

Technical Assistance

The PTO also provides technical assistance to developing countries that are setting up or improving their intellectual property protection systems. The assistance includes specific review of foreign laws and regulations to implement intellectual property enforcement regimes. Last fiscal year, we provided technical assistance to over 70 countries, and the effort included 90 separate assistance projects. We plan to improve on those numbers in the new fiscal year.

Inter-Agency Council

While PTO and other Federal agencies regularly consult on intellectual property-related enforcement activities, the recently enacted Treasury Appropriations law (P.L. 106-58) establishes a formal inter-agency coordination effort. The law creates the National Intellectual Property Law Enforcement Coordination Council with the mandate of coordinating domestic and international intellectual property law enforcement among Federal and foreign entities.

The Council membership consists of PTO and our colleagues at the Justice Department, State Department, USTR, Customs, and the Department of Commerce. The Council is directed to consult with the Register of Copyrights on copyright-related issues and must report annually on its activities to the President and the House and Senate Committees on Appropriations and the Judiciary. We look forward to working with our colleagues on this important effort.

Patents

Securing effective patent protection as expeditiously as possible is critical to all U.S. industries, particularly pharmaceutical, computer and other high tech sectors, and the U.S. patent business is booming. Patent applications are up 25% in the last two years, and in the fiscal year that just ended we received nearly 268,000 applications. Since 1996, patent applications in information-related technologies have risen more than 70% and biotech applications have jumped over 60%.

To handle the rapid growth in patent applications and to address our customers' concerns, we hired more than 700 new patent examiners last year and hired another 800 examiners this year. Most of the new hires are in computer and information processing technologies, and one-third of the new examiners hold a Masters or a Ph.D. degree in engineering, computer science or mathematics.

With the addition of these new employees, our examining corps has increased to 2,940 examiners as of the end of August 1999, up from 2,212 examiners at the end of FY 1997 and 1,806 examiners in FY 1992. During this period of extensive hiring, the PTO has expended significant resources for training new employees and in reviewing their draft work product. As this group of new examiners becomes more experienced with their

searching and examining functions, we anticipate even quicker and more accurate actions. Overall, we devoted nearly 6% of our budget to training this year, including over 100,000 hours for training new examiners in PTO procedures.

We continuously review our national statutory and regulatory provisions and our obligations under international treaties and agreements, seeking out areas where improvements may be made. The focus of our patent business goals is to increase the level of service to the public by raising the efficiency and effectiveness of our business processes. For example, in the notice of proposed rulemaking ("Changes to Implement the Patent Business Goals") published in the Federal Register on October 4, 1999, the PTO has proposed changes to Title 37 of the Code of Federal Regulations, our rules of practice. The intent is to eliminate unnecessary formal requirements, streamline the patent application process and simplify and clarify applicable provisions. We anticipate that these changes will reduce the costs of obtaining patents while maintaining, if not increasing, the quality of our searching and examination functions. Additionally these changes have addressed many potential pitfalls, which currently have the effect of possible forfeiture or delay of protection caused by filing or procedural errors by applicants.

In order to ensure a timely search and an examination of high quality, the PTO has made great improvements to our examiners' search capability resources. Today, from a desktop computer, patent examiners search the full text of over 2.1 million U. S. patents issued since 1971; images of all U.S. patent documents issued since 1790; English-language translations of 3.5 million Japanese patent abstracts; English-language translations of 2.2 million European patent abstracts; IBM technical bulletins; more than 900 discrete databases; and over 5,200 non-patent literature journals. We are constantly improving these systems to make more information available more easily.

As a result, our patent examiners in the pharmaceutical art are provided with desktop access to a vast collection of databases containing pharmaceutical non-patent literature, as well as traditional foreign and U.S. patent databases. Examiners are also given significant art specific training, both in a formal setting and from more senior examiners within each work group.

In the computer related technology area, the patent law of the United States has undergone significant judicial and administrative changes during the last decade. The general outcome of these changes is that many inventions that previously would have been ineligible for patent protection for the sole reason that they were categorized as "software" related or embodying certain algorithms are now eligible for patent protection. These changes allow patents applications for devices encoded with program codes, or devices programmed to provide certain results, to be eligible for protection. The computer related applications are subject to the same novelty and non-obviousness requirements imposed on all other applications.

The examination of these computer-related applications has presented some new administrative burdens. In most technologies, the PTO has at its disposal a large number

of skilled examiners who are available to train inexperienced examiners and to review difficult applications. However, in computer related art, the office has had less time than normal to build a sufficiently large group of skilled examiners. An additional problem in this area is that the prior art collection, which is normally collected over time by the Office, must be newly discovered or assembled by the Office or the art must be searched in a non-traditional manner. We are working to overcome this problem.

In recent years, the PTO has been increasingly active in improving intellectual property rights around the world. We seek to promote intellectual property protection that is obtainable and protectable at a reasonable cost, in terms of both time and money. Additionally, we promote drafting of patent laws that not only encompass advanced technology of which we are currently aware, but also areas that are beyond our current imagination. This activity is consistent with Article 27(1) of the TRIPs agreement, which states in part:

> "…patents shall be available for all inventions whether products or processes, in all field of technology, provided that they are new, involve an inventive step and are capable of industrial application…"

Members to the TRIPs Agreement may, and have, invoked exclusions for some categories of inventions. Further, by defining "inventions" narrowly, members may, and have, effectively excluded advanced technological fields, such as computer related inventions from patentable subject matter. Unfortunately, by applying differing standards, these members have increased the cost of worldwide protection. It is our hope that consultations with other national intellectual property offices will limit this activity in the future. However, other avenues, such as initiation of the World Trade Organization (WTO) dispute settlement mechanism, may be an option in some instances.

The United States has also been an active participant the Ad Hoc Advisory Group on PCT (Patent Cooperation Treaty) Legal Matters. The group's meetings have focused on revisions to the PCT regulations to streamline processing of international applications by all entities involved. The changes discussed in the PCT will minimize the adverse impact on applicants when they make errors in filing documents in international application under the Patent Cooperation Treaty.

Through our membership in WIPO, the United States is currently negotiating a draft Patent Law Treaty (PLT). The principal goal of the PLT is to provide standardization of filing requirements and prosecution procedures among the member countries. This standardization of filing requirements would reduce the high costs of complying with various and sometimes inconsistent national and regional requirements. It would also reduce the risks of loss of potentially valuable intellectual property rights due to filing errors. By providing more consistent treatment of applications and prosecution procedures throughout the various member national and regional offices, the PLT will allow applicants to develop worldwide protection with greater confidence and at reduced costs.

The PTO is also working with the Japanese and European Patent Offices, the two other large patent offices in the world, to seek ways to benefit from advances in information technology. Together, we will develop and share patent search tools and work on the harmonization of Internet-based filing systems. A memorandum of understanding, developed and signed at the 16th Annual Conference in Miami, Florida, focuses on mechanisms for the future electronic exchange of data and the extension of a trilateral network to WIPO. It also provides for a cooperative effort to implement a new concurrent search pilot and to revise the information dissemination policy to allow each office to make available to the public, on an Internet service, the data received from the other two offices.

Trademarks

The trademark side of our operations is also experiencing significant growth, with trademark applications up nearly 25% this year alone. We expect to receive approximately 300,000 trademark applications this year.

Earlier this year, the PTO initiated a system for the on-line filing of trademark applications. Anyone with a credit card and Internet access can now file a trademark with the PTO, making us the first national intellectual property office in the world with such a system. Already more than 10% of our trademark applications are filed electronically, and we are now receiving more than 2,000 electronic applications per month. This lowers both processing time and costs as PTO staff no longer has to key-enter or scan the application information into the database. In addition, the quality of our database will improve because the electronic application process eliminates PTO-introduced errors as a result of key entry or scanning. *Yahoo Magazine* has cited this system, known as Trademark Electronic Application Submission (TEAS), as one of the most useful sites on the Internet.

This year, there have been a number of important international developments in the area of trademarks. At the Governing Bodies Meeting of the World Intellectual Property Organization, the WIPO General Assembly and the Paris Union Assembly adopted a recommendation on the protection of well-known trademarks. This recommendation represents an international consensus on such important issues as the standards for identifying a well-known mark or for determining what constitutes the relevant sector of the public. The recommendation will give guidance, and potential legislative language, to those countries that are now drafting legislation to implement the TRIPs Agreement. The standards set forth in the recommendation could also be useful in the ongoing process to protect well-known marks on the Internet.

Further, on both the domestic and international fronts, this year has seen the organizational development of ICANN (the Internet Corporation for Assigned Names and

Numbers). Part of ICANN's mandate was to create a dispute resolution procedure for resolving disputes between domain name holders and trademark owners. The purpose of such a dispute resolution mechanism would be to allow a speedy and fair resolution of certain egregious types of infringement between trademarks and domain names. Such a dispute resolution mechanism will be revolutionary in the sense that it will allow trademarks owners throughout the world to access, on-line, a single and simple process for protecting their trademarks against certain types of infringement, such as cybersquatting and warehousing. ICANN posted a dispute resolution procedure for comment on September 29, 1999.

With respect to international filings of trademark applications, PTO recently issued regulations to implement the Trademark Law Treaty Implementation Act of 1998 (P.L. 105-330). The Treaty benefits U.S. trademark owners by requiring that member countries dispense with most legalization requirements and limit the list of filing and registration requirements. It also requires member countries to accept multi-class applications and service mark registrations. The result will be simplification and harmonization of requirements for acquiring and maintaining a trademark registration in the member countries.

The future for trademarks internationally promises to be a very interesting one. On the positive side, the fact that trademarks have been such a popular target of Internet pirates means that trademark owners have been forced to lead the way in finding new ways to protect intellectual property on the Internet. Consequently, trademark owners have had the first opportunity to establish an Internet enforcement procedure. That procedure, the ICANN dispute resolution procedure, may be the forerunner of new Internet procedures, available on-line and worldwide, for settling intellectual property disputes in other areas such as copyrights and patents.

We believe that the Internet will ultimately enhance the value of trademarks as consumers increasingly will need recognizable marks to help them sort through the enormous selection of goods and services that will become available through the Net. At the same time, the Internet will benefit small businesses because they can have a worldwide marketing presence with just the cost of maintaining a web site.

Copyrights

While our publishing, computer software, information and entertainment industries continue to face serious challenges in terms of piracy and infringement in foreign markets, progress is being made to promote international cooperation in the protection of intellectual property in the global economy.

On December 20, 1996, the Diplomatic Conference on Certain Copyright and Neighboring Rights Questions, convened by WIPO, approved two Treaties designed to ensure international protection of copyrighted works, performances and sound recordings in the digital environment: the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT). A major intellectual property related

electronic commerce goal of the Administration has been United States adherence to these Treaties and to encourage their prompt ratification by our trading partners. The United States signed the Treaties on April 12, 1997. The Administration submitted the Treaties and recommended implementing legislation to the Senate on July 31, 1997 and submitted its recommended implementing legislation to the House of Representatives on July 29, 1997. The implementing legislation, the Digital Millennium Copyright Act (DMCA), was passed by the Congress and signed into law by the President on October 28, 1998.

The following countries have ratified the WCT and the WPPT: Belarus, Burkina Faso, El Salvador, Hungary, Panama, Republic of Moldova, and the United States of America. Indonesia and Kyrgyzstan have ratified or acceded to the WCT but not the WPPT. The Treaties will enter into force three months after 30 instruments of ratification have been deposited with WIPO.

The U.S. Government is actively working to encourage others to ratify and implement the Treaties. First and foremost, the United States is taking the lead by example. On September 14, 1999, Commerce Secretary Daley deposited the U.S. instruments of ratification with the Director General of WIPO. Additionally, the Administration, including the PTO, the Office of the U.S. Trade Representative (USTR), the State Department, and the U.S. Copyright Office, have been urging other countries to join the Treaties.

In addition, we are monitoring the progress of several of our key trading partners as they move toward ratification and implementation of the two Treaties. For example, this past summer, the Japanese Diet and the Argentine House of Deputies passed domestic legislation implementing the Treaties' obligations in their respective countries. The Australian Parliament also has drafted domestic legislation to implement the two Treaties, and it is our understanding that the bill will be considered later this year. The Colombian Senate has also passed two bills approving the two Treaties and the matter has now moved to the Colombian House of Deputies.

The European Union (EU) is also drafting a Copyright Directive to implement the Treaties. Once the European Commission completes and adopts the Directives, each Member State of the EU must then implement the Directives in their domestic legislation. Likewise, they must each put themselves in position to ratify the Treaties through their domestic legislative processes. When all of the Member States in the European Community are in a position to ratify, in accordance with the administrative provisions of the Treaty, they will all deposit their instruments of ratification simultaneously.

The U.S. Government has taken an active role in encouraging other countries to join the WCT and the WPPT. The United States has taken the lead in promoting joining the treaties through trade negotiations, speeches and participation in conferences on intellectual property, and WIPO meetings or programs promoting intellectual property protection. In these fora, U.S. representatives have explained the features of the DMCA and its approach to protection of anti-circumvention devices and systems, copyright management information, and limitations on liability of service providers.

For example, in July the PTO co-sponsored with WIPO a conference for representatives from 30 African states on intellectual property in the digital age. At this conference, PTO officials made presentations on the two Treaties and emphasized the importance of African states ratifying the Treaties and adapting their laws to deal with electronic commerce issues such as limitations on liability for service providers. During the same month, the Commerce Department's Commercial Law Development Program (CLDP) held a two-day seminar on intellectual property in Lagos, Nigeria, in which USPTO and private sector officials emphasized the importance of Nigeria and other states ratifying the Treaties. The CLDP includes promotion of the WCT and WPPT in all its intellectual property rights programs. Explanation, discussion, and promotion of the Treaties and the approach to implementation in the DMCA is also a major element of the PTO's annual Visiting Scholars Program and the Copyright Office's annual International Copyright Institute. Each year, these Washington-based programs attract dozens of government officials from a variety of developing and emerging economies.

The U.S. Government also is promoting the Treaties through activities and discussions in the WTO and the Free Trade Area of the Americas (FTAA). In the WTO, we have encouraged countries to ratify the Treaties through trips Council discussions related to electronic commerce. In connection with other work on electronic commerce in the WTO, we have also held discussions with countries concerning appropriate limitations on liability of Internet service providers. In the FTAA's Negotiating Group on Intellectual Property and the Government and Private Sector Committee of Experts on Electronic Commerce, we have proposed that members consider ratification and implementation of the WIPO Treaties by countries in the Hemisphere. Discussions in the FTAA Committee of Experts on Electronic Commerce have also included the matter of the establishment of appropriate limitations on liability for service providers.

The U.S. Government also is encouraging other countries to join the Treaties by using the Special 301 review process conducted by USTR. This objective is consistent with the mandate from Congress to seek adequate and effective levels of protection for intellectual property by our trading partners through promotion of the highest international standards. The standards in the WIPO Treaties meet these criteria. Therefore, the Administration continues to encourage countries to ratify and implement the WIPO treaties through the Special 301 process. To further promote the Treaties, the State Department sent cables to the U.S. embassies explaining the Treaties and their benefits and requesting that they consult with their host governments and encourage them to join.

Another area of legislative and international activity with significant impact on electronic commerce is the issue of legal protection for databases separate from copyright. In 1998, relevant legislation passed the House of Representatives twice, but was not taken up by the Senate. There are presently two legislative proposals for database protection in the 106th Congress: H.R. 354, sponsored by Congressman Coble; and H.R. 1858, sponsored by Congressman Tom Bliley. The Administration offered extensive commentary on each bill at hearings held in March and June, respectively. The Administration remains committed to working with the House and Senate on a database protection law that establishes adequate incentives for database production and distribution, while ensuring a robust range of fair uses, particularly for scientific,

research, and transformative uses. Internationally, in 1999, the Administration made presentations on these developments at WIPO regional consultations in Minsk, Buenos Aires, and Manila. We anticipate that the subject will also be discussed at the next meeting of the WIPO Standing Committee on Copyrights, scheduled for November 1999 in Geneva.

On another copyright issue, the PTO, along with other U.S. Government agencies, worked with the U.S. motion picture industry and performers' unions to develop an agreement to improve international protection for audiovisual performers' rights. As a result, the U.S. Government last year put forward a comprehensive proposal in WIPO for a new Treaty on Audiovisual Performers Rights. This proposal aims to meet the needs of both performers and film producers in a way that will ensure that both parties benefit from the efficient exploitation of motion pictures in the marketplace.

This proposal is a new milestone in U.S. international copyright policy, as well as a milestone in developing the policies that shape international copyright law in this area. It represents the first time that the United States has taken the initiative on this long-standing and controversial topic and proposed an agreement that would ensure both moral rights and economic rights for audiovisual performers.

Conclusion

As we prepare to enter the next millennium, the PTO will continue its efforts to secure and expand protection of U.S. intellectual property throughout the world. With some hard work and good will, we are confident that we can build systems that will serve our citizens well during the next century. These systems need to reflect, however, the realities of a new marketplace -- one that is increasingly electronic and global.

Thank you, Madame Chair.