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[The Need to Evaluate the Benefits and Costs of a Proposed Trademark Treaty and Implementing Legislation]. CED-77-133; B-1333375. October 7, 1977. 9 pp.

Report to Secretary, Department of Commerce; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Program Evaluation Systems (2600); Program and Budget Information for Congressional Use (3400).
Contact: Community and Economic Development Div.
Budget Function: Commerce and Transportation: Other Advancement and Regulation of Commerce (403).
Organization Concerned: Patent and Trademark Office.
Congressional Relevance: House Committee on the Judiciary; Senate Committee on the Judiciary.
Authority: Trademark Act of 1946 (15 U.S.C. 1051).

The Department of Commerce proposes to change the U.S. trademark law. The Department vigorously supports the proposed international Trademark Registration Treaty, to which the United States is a signator. If the Congress is to ratify the treaty, changes in U.S. trademark law are necessary. The proposed legislative changes will not only affect the registration of international trademarks but will greatly alter the process and methods for registering domestic trademarks in this country. The changes will affect all U.S. business firms registering trademarks. Findings/Conclusions: An informed and objective decision on the treaty and proposed legislation cannot be made without complete and accurate estimates of the benefits and increased costs to all parties. The Department, however, did not obtain the data necessary to make such a decision. This data could be obtained from a representative sample of business firms registering domestic and foreign trademarks. Recommendations: The Secretary of Commerce should require the Commissioner of Patents and Trademarks to undertake a survey designed to elicit needed information from a statistically valid sample of trademark owners and use this information to estimate the realizable benefits and probable costs that U.S. business firms and the Government will experience from the proposed legislation. (Author/SW)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

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The Honorable
The Secretary of Commerce

Dear Madam Secretary:

We surveyed the changes the Department of Commerce proposes to make to U.S. trademark law. The Department vigorously supports the proposed international Trademark Registration Treaty, to which the United States is a signatory, and if the Congress is to ratify it, changes in U.S. trademark law are necessary. The proposed legislative changes will affect not only the registration of international trademarks but will greatly alter the process and methods for registering domestic trademarks in this country. Consequently, the changes will affect all U.S. business firms registering trademarks.

The monetary impacts the proposed legislative changes will have on U.S. businesses and the Federal Government have not been fully and adequately considered. Monetary effects on business are virtually unknown; for the Government, however, a sizeable expansion of the trademark program at a time of budgetary restraint will result.

Whenever objective data and other information are available, they should be obtained and evaluated. To the extent possible, the monetary benefits of a program should be measured and weighed against full costs. In this regard, the Department did not obtain pertinent information from a representative number of trademark owners and, therefore, cannot estimate the realizable benefits and probable costs of this proposed le[illegible]ion. Nevertheless, the Department is going forward wit[illegible] [illegible]cial information and will ask the Congress to [illegible]

For the most p[illegible] [illegible]e conducted this survey at the Department's Patent [illegible]demark Office, which is headquartered in Arlington, Virg[illegible]. We evaluated the information that office obtained and considered in developing the legislative proposal and reviewed pertinent trademark literature.

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In addition, we discussed our findings with the Commissioner and other officials of the Patent and Trademark Office.

TRADEMARK LAW, THE TREATY, AND PROPOSED LEGISLATION

Although there have been attempts to materially revise it, the Trademark Act of 1946 (15 U.S.C. 1051) has remained basically unchanged. The proposed trademark treaty and implementing legislation represent the most extensive, wide-sweeping changes proposed to date. Consequently, a decision on these matters should establish trademark law for many years to come.

Under present law a businessman establishes rights in a trademark by being the first to actually use it in his particular endeavor. Registration of the trademark does not in itself create or establish any exclusive rights but is recognition by the Government that the owner has established the right to use the mark to distinguish his goods from those of another. The trademark must be used in commerce which may be lawfully regulated by the Congress--namely interstate and foreign commerce--in order to be registered with the Federal Government.

In 1970 the United States sponsored international efforts which resulted in negotiation of the Trademark Registration Treaty. This treaty was submitted to the Senate for advice and consent for ratification on September 3, 1975, but final action cannot be taken until the Congress is also given the implementing legislation. As of August 25, 1977, the Office of Management and Budget was considering the legislation.

The treaty's primary purpose is to establish a simplified and centralized international filing arrangement to enable U.S. business firms to more easily obtain and maintain their trademark rights in foreign countries. Although trademark applications can be filed directly with an International Bureau, 1/ the registration requirements of individual countries must still be met.

The most fundamental change to which the United States agreed was the registering of foreign trademarks that had not been actually used. However, a foreign registrant can be

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1/Administered by the World Intellectual Property Organization, one specialized agency of the United Nations.

required to declare intention to actually use the mark and must actually use it within 3 to 5 years of registration, or it can be canceled. These and other provisions are included in the Department's proposed legislation and, as an alternative to the present requirement for actual use, they are also being extended to domestic firms that register trademarks in this country.

OBJECTIVE DATA NEEDED FOR AN INFORMED DECISION

U.S. business firms engaged in international trade will be the beneficiaries of the trademark treaty, but the extent of such benefits has not been determined. Likewise, the extent of any benefits and increased costs to U.S. business firms engaged in domestic trade, as well as the increased costs to the Government, as a result of the treaty and changes to law also have not been fully determined and considered. Consequently, no one can ascertain whether the benefits are real and sufficient to counterbalance resulting disadvantages and increased costs.

Benefits to international registrants

U.S. business firms must now deal with separate foreign jurisdictions to obtain and protect trademark rights in international markets. According to the Department, the trademark treaty is intended to alleviate the complexity and high cost associated with this diverse procedure.

The problem of complexity would seem to be solved by the simplified filing arrangement with one International Bureau as opposed to separate filings with individual countries. However, this benefit will accrue only in proportion to the number of countries who join the treaty, which at this time is unknown. Fifty nations attended the treaty negotiations in 1973, but only 14 countries signed it, and none have ratified it. Most countries are believed to be awaiting U.S. action.

Total cost savings to international registrants is unknown also because the Department did not attempt to obtain the information needed to make this determination. Concerning U.S. firms, the Department does not know how many register trademarks in foreign countries, how many may take advantage of the treaty provisions, in how many countries they would seek registration, and what costs they would likely save. Answers to these and similar questions are essential to estimating the benefits to U.S. business firms registering trademarks in foreign countries.

Benefits and costs to domestic registrants

The Department believes that registering unused marks will be more consistent with the legitimate needs of businessmen. For example, under present law actual use of a mark is a prerequisite for filing an application for registration. After having adopted a new mark and undertaken the time, effort, and expense of creating, planning, and using it with a new product, it may be found to be in conflict with another trademark or may not be registrable for some other reason. Under these circumstances it would seem to be less difficult and less costly to be able to register marks before they must be used in commerce.

Most persons knowledgeable of the treaty and proposed legislative changes recognize that there will be an increase in trademark applications in the United States, but the amount of increase is unknown and subject to wide speculation. Opponents believe that a large increase will occur because many domestic firms with a constant need for new trademarks will reserve them in advance. Also, many foreign firms will be able to easily register marks in this country without having to use them first. Presumably, this will lead to a cluttering of the trademark register and add to the complexity and costs of obtaining new marks, as well as protecting existing ones from infringement.

The Department did not contact trademark owners to determine how many more applications will be filed or what additional costs, if any, will be saved or incurred if use is no longer a prerequisite for registration. Answers to these and similar questions are also essential to estimating the complete benefits and total costs of the proposed legislative changes to domestic trademark registrants.

Comments received from trademark sources

The text of the Trademark Registration Treaty and an outline of possible changes to the law were published in the Department's "Official Gazette." In addition, the Department requested that interested persons and organizations submit views on these matters before September 1974. Public comments were received from 16 persons or companies and 11 local patent law associations. Of these, 70 percent opposed the changes, 19 percent favored them, and 11 percent took no position. Some national law and trade associations also made their views known directly or through official journals. Two favored, one opposed, and two did not take a position on the changes, as discussed on the following page.

As recommended by its Patent, Trademark, and Copyright Law Section, the American Bar Association adopted a favorable resolution, which was based on a total vote of only about 3 percent of the section membership.

The Executive Committee of the International Patent and Trademark Association unanimously adopted a favorable resolution on the basis of a poll of association members. Of 723 ballots sent, 308 were returned. Of those responding, 162 members or 53 percent favored and 146 members or 47 percent opposed ratification.

The United States Trademark Association, an international organization of trademark owners and associates, polled its 802 U.S. members and received responses from 580, as follows:

	Number responding				Percent			
	Abstain	In favor	Oppose	Total	Abstain	In favor	Oppose	Total
Trademark owners	24	107	160	291	8	37	55	100
Lawyers, law firms, agents, etc.	38	78	173	289	13	27	60	100
Total	62	185	333	580	11	32	57	100

The American Patent Law Association and the Pharmaceutical Manufacturers Association took no position.

It is difficult to judge whether the responses the Department received represent a valid cross section of trademark owners. There are about 475,000 active trademarks registered in the United States, representing an indeterminate number of owners.

Increased costs to the Government

Although the Department does not know and did not attempt to gather the data needed to calculate the benefits to international registrants and the benefits and costs to domestic registrants, it did prepare some estimates of the increased costs to the U.S. Government if the proposed changes become

law. The Department estimates that during the first 3 years it will receive 28,000 additional trademark applications which will require 110 more staff-years of effort and $4.4 million to handle the increased workload. About one-third of the costs will be recovered from trademark applicants, and the remainder will be financed by the American taxpayer. Our examination of the Department's estimates, a summary of which is included in the legislative package to be transmitted to the Congress, showed that in calculating the estimates the Department made certain questionable assumptions. The estimates are summarized below.

	Estimated increases					
	First year		Second year		Third year	
Activity	Staff-years	Cost (note a)	Staff-years	Cost (note a)	Staff-years	Cost (note a)
Printing	-	$ 582	-	$ 651	-	$ 705
Examining	22	423	33	682	41	868
International Affairs	1	44	2	89	3	133
Support	2	63	3	94	3	94
Total	25	$1,112	38	$1,516	47	$1,800

a/000s omitted

The Department used its estimates of the increased number of applications it expects to receive to calculate the above increases in costs and staff-years of effort. The Department's estimates of increased applications, the assumptions under which it calculated the estimates, and our evaluations follow.

Fiscal year	Projected applications under present law		Additional applications under new law			
	Domestic	Foreign	Domestic	Foreign (note a)	Total	Percent
1979	42,800	4,280	5,992	1,605	7,597	17.75
1980	43,700	4,370	6,118	3,278	9,396	21.50
1981	44,700	4,470	6,258	5,029	11,287	25.25

a/Because less than full participation is expected in the first 3 years, estimated increases were reduced to one-fourth in 1979, one-half in 1980, and three-fourths in 1981.

Additional applications from proposed law

In calculating the increased number of domestic applications it expects to receive, the Department assumed that the increase would be equivalent to 14 percent of the number of applications it expected to receive each year under the present law. The 14-percent assumption was based on Canada's experience in the mid-1950s when its law was changed to allow the registration of trademarks not previously used. We believe that the application of this experience of over 20 years ago is inappropriate. Today's economic conditions are different, the Canadian economy is smaller and less complex than our own, and it registers only about one-fifth of the total number of trademarks.

Canadian law also differs materially from the Department's proposed legislation. In Canada an applicant may apply to register a trademark that has not been used, but the registration is not granted until use has actually commenced. Use must commence within 6 months from the date the Canadian Government decides to allow the registration. Under the proposed trademark treaty and changes to U.S. law, registration will be granted when the Government determines that the trademark is valid, whether or not it has been used. This distinction alone could very well cause an increase in U.S. applications far different from that previously experienced in Canada.

The Department arbitrarily added 150 percent to its estimated normal increase in foreign applications in this country to arrive at its estimate of increased foreign applications resulting from the treaty. The Department assumed that foreign origin filings in the United States would increase two to three times the present experience. The Department did acknowledge that its assumption was arbitrary.

Costs not estimated

The Department expects to publish all trademark applications shortly after they are received. This new, added procedure will increase opposition proceedings, 1/ but the Department did not estimate the increased costs for handling additional oppositions.

1/Any person who believes that he would be damaged by the registration of a mark may oppose it.

Two other items of increased costs were identified, but considered too remote to estimate--initial cash contributions to the working capital fund administered by the International Bureau, which will process international applications, and later cash contributions for possible deficits in that fund.

The Department should attempt to identify and estimate all principal elements of increased costs to the Government as a result of the implementation of the treaty and proposed law. Individually, the elements may not be large, but their sum could be significant.

CONCLUSIONS AND RECOMMENDATIONS

An informed and objective decision on the treaty and proposed legislation cannot be made without complete and accurate estimates of the benefits and increased costs to all parties. The Department, however, did not obtain the data necessary for it or the Congress to make such a decision. This data could be obtained from a representative sample of business firms registering domestic and foreign trademarks.

We believe that the Department should select a statistically valid sample of domestic trademark owners and send them a questionnaire designed to obtain such information as the

--number of companies that will take advantage of the treaty provisions in foreign countries,

--number of additional applications that will be filed by domestic business firms, and

--additional costs that will be saved or incurred by the companies.

The Department should include in the legislative package to be submitted to the Congress the results of these analyses. Without such information the arguments favoring and opposing the treaty and legislative changes will largely remain subjective, biased, and difficult to evaluate.

RECOMMENDATIONS

We recommend that the Secretary of Commerce require the Commissioner of Patents and Trademarks to (1) undertake a

survey carefully designed to elicit needed information from a statistically valid sample of trademark owners and (2) use this information to reasonably estimate the realizable benefits and probable costs that U.S. business firms and the Government will experience from the proposed legislation.

We recommend also that the survey results and the Department's estimate of the realizable benefits and probable costs be included in the Department's legislative package when it is submitted to the Congress.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget; the Senate Committee on Foreign Relations; the above mentioned Committees; and other applicable legislative committees. Your Assistant Secretaries for Science and Technology and Administration; Commissioner of Patents and Trademarks; and Director, Office of Audits, will also receive copies of this report.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director