



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 23, 1999

S. 1798

American Inventors Protection Act of 1999

As ordered reported by the Senate Committee on the Judiciary on November 2, 1999

SUMMARY

S. 1798 would reduce certain patent fees, allow the Patent and Trademark Office (PTO) to adjust trademark fees and to spend receipts from such fees only for related operations, and make a number of other changes in laws governing the issuance of patents and related procedures.

Relative to the spending CBO would expect under current law, we estimate that implementing S. 1798 would reduce net discretionary spending by the PTO by about \$15 million over the 2000-2004 period, assuming appropriation of the authorized amounts. Because enactment of the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

S. 1798 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would, in general, benefit state, local, or tribal governments if they hold patents and trademarks. In addition to expanding the protections and rights of patent holders, the bill would reduce certain patent fees and authorize the adjustment of trademark fees. CBO expects that these changes would have only minimal effects on the budgets of state, local, and tribal governments.

S. 1798 would impose new private-sector mandates on promoters of inventions, patent and trademark applicants, and other private-sector entities. The bill would require promoters of inventions to provide their clients with written disclosures, increase trademark fees, and create new patent fees. The bill also would require businesses and individuals to pay additional royalties to some patent holders. CBO estimates that the total costs of the private-sector mandates in S. 1798 would fall below the threshold established in UMRA (\$100 million in 1996, adjusted annually for inflation).

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

Title I would require companies that evaluate the market potential of inventions to include standardized disclosures in contracts between the companies and the inventors. It would establish civil remedies for inventors who have been injured by violations of this title.

Title II would reduce the amounts the Patent and Trademark Office charges inventors to apply for patents and would authorize the PTO to adjust the amounts it charges for the filing of trademarks to better match the agency's cost of administering trademarks. Under current law, the PTO is authorized to modify the amounts it charges to patent and trademark owners and applicants to reflect fluctuations in the Consumer Price Index.

Title III would allow an inventor who has used an invention at least one year before it is patented by another party to continue using the invention without infringing on the new patent. This provision (also known as the "first inventor defense") would protect companies that choose to protect their inventions through trade secrets laws instead of patent protection and companies in sectors that until recently were denied patents.

Title IV would extend the term of a patent for up to 10 years for administrative delays by the PTO or by successful appellate reviews. In addition, the title would provide extensions for every day beyond three years that the PTO takes to issue a patent. Finally, this title would provide unlimited extensions for delays experienced as a result of interference and secrecy orders.

Title V would require the PTO to publish patent applications within 18 months of filing regardless of whether a patent has been granted and would authorize the PTO to charge a fee to cover the cost of early publication. Applications that are no longer pending, only for domestic use, subject to secrecy orders, or detrimental to national security would not be published. Under this title, following the grant of a patent, an inventor would be entitled to a reasonable royalty from anyone who used, sold, or imported the invention during the period from the time of publication until the patent was granted. Finally, title V would authorize the PTO to raise existing fees or establish a new fee to cover the cost of publishing patent applications.

Title VI would allow third parties to request that PTO reexamine other pertinent patents and printed materials that the examiner might not have uncovered during the course of the original patent examination. The title also would give the requestor the opportunity to file comments on each response by the patent owner. It would allow either the patent holder or the requestor to appeal the decision of the patent examiner to the Board of Patent Appeals and Interference (BPAI) and would allow the patent holder to appeal the decision of the BPAI to the Court of Appeals for the Federal Circuit. Title VI would require a fee to be

submitted with each third-party request for a patent reexamination and would authorize the PTO to collect a fee from the patent owner if the owner does not respond in a timely manner to a request for information pertinent to the reexamination.

Title VII would change the procedure to apply for patents so as to effectively eliminate the requirement to pay fees for those applications that are later abandoned. S. 1798 also would require the PTO and the General Accounting Office (GAO) to complete a number of studies for the Congress. In addition, S. 1798 would make a number of other changes to patent law that would not significantly affect the federal budget.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1798 is shown in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

Table 1. Estimated Budgetary Impact of S. 1798

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Changes in PTO Fees					
Estimated Authorization Level	-5	-35	-38	-40	-42
Estimated Outlays	-5	-35	-38	-40	-42
Changes in PTO Spending					
Estimated Authorization Level	13	38	37	38	40
Estimated Outlays	8	28	34	36	39
Changes in Net PTO Spending					
Estimated Authorization Level	8	3	-1	-2	-2
Estimated Outlays	3	-7	-4	-4	-3

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 1798 will be enacted early in fiscal year 2000. Estimated outlays are based on historical spending patterns for the PTO and information provided by the agency.

In general, most or all of PTO’s spending is offset by the fees that it collects. In some years (for example, 1998 and 1999), the agency’s cash collections have exceeded its expenditures. CBO estimates that net PTO spending under S. 1798 would be \$15 million lower than under current law over the 2000-2004 period—additional spending of \$145 million less additional collections of \$159 million, assuming appropriation of the amounts we estimate are necessary to implement the bill. The PTO cannot collect or spend any user fees without prior approval in an appropriation act. Thus, the budgetary effects of the legislation would apply to discretionary spending.

Changes in PTO Fees

Table 2 shows the estimated collections from fees under S. 1798 compared to projected collections under current law. S. 1798 would require the PTO to collect some additional user fees, but would reduce the application fee for patents and would allow PTO to adjust trademark fees. CBO estimates that these changes would reduce collections by a total of \$160 million over five years.

Table 2. Estimated Collections from PTO Fees

	Outlays in Millions of Dollars, By Fiscal Year					
	1999	2000	2001	2002	2003	2004
Collections Under Current Law	-912	-984	-1,053	-1,127	-1,206	-1,290
Proposed Changes ^a	0	-5	-35	-38	-40	-42
Collections Under S. 1798	-912	-989	-1,088	-1,165	-1,246	-1,332

Note: Fee collections are recorded as negative outlays.

a. Would require appropriation action.

Patent Application Fee. The act would reduce application fees from \$760 to \$690, and would reduce certain other fees. Based on information from the PTO, CBO estimates that these provisions will reduce collections from these fees by \$151 million over the 2000-2004 period. In addition, the act would effectively waive the fee for provisional applications that later are abandoned. Based on information from the PTO, CBO estimates that this provision would cause PTO to forgo about \$17 million of fees over the 2000-2004 period.

Trademark Fees. S. 1798 would authorize the PTO to adjust the amounts it charges to process applications for trademarks. In reviewing the cost of each activity PTO performs, the agency has determined that applicants for trademarks pay less than the cost to process those applications, while applicants for patents pay more than the cost to process patent applications. Based on that information, CBO expects that the agency would increase trademark fees by more than enough to offset the lower patent fees that the bill would require. We estimate that the PTO would adjust trademark fees so as to increase collections by \$203 million over the 2000-2004 period.

Publication Fees. S. 1798 would authorize the PTO to raise existing fees or establish a new fee to offset the cost of publishing certain patent applications. (The agency has authority under current law to charge fees to offset the costs of processing applications.) Because the PTO would not be allowed to collect or spend the additional fees without approval in appropriation acts, any collections would reduce net discretionary spending. Based on information from the PTO, CBO estimates that the agency would collect an additional \$89 million in publication fees over the 2000-2004 period. The PTO would incur some initial costs that would not be recovered by fees, and CBO expects a lag between the time the PTO collects and spends the fees. As a result, CBO estimates that the agency would spend about \$81 million on publications over the same period.

Reexamination Fee. S. 1798 would ease restrictions on reexamination proceedings initiated by third parties, thus causing an increase in the number of proceedings. Based on information from the PTO, CBO estimates enacting S. 1798 would nearly double the number of reexamination requests, resulting in additional fee collections of about \$36 million over the 2000-2004 period. Because CBO expects a lag between the time the PTO collects and spends the fees, CBO estimates that the bill would increase PTO's spending on reexaminations by about \$31 million over the 2000-2004 period.

Penalty Fee. The bill also would authorize the PTO to collect a new penalty fee if a patent owner does not respond to a request for information pertinent to the reexamination. CBO expects that any receipts from this new fee would not be significant.

Changes in PTO Spending

CBO estimates that the PTO would spend \$146 million more over the 2000-2004 period than under current law. Based on information from the agency, CBO estimates that extending the term of delayed patents would increase PTO's spending for administrative costs by about \$33 million over the 2000-2004 period, without having any corresponding effect on fee collections. Most of the remaining increase in spending under S. 1798—an estimated

\$112 million over the 2000-2004 period—would go for publishing applications and conducting reexamination proceedings.

Other Discretionary Costs

CBO estimates that the study required by the bill would cost GAO less than \$500,000 in fiscal year 2004. Implementing the bill also could increase costs to the federal courts if more civil suits are filed by private parties, but we do not expect many additional cases.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1798 contains no intergovernmental mandates as defined in UMRA and would, in general, benefit state, local, or tribal governments if they hold patents and trademarks. In addition to expanding the protections and rights of patent holders, the bill would reduce certain patent fees and authorize the adjustment of trademark fees. These changes are expected to have only minimal effects on the budgets of state, local, and tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 1798 would impose new private-sector mandates on companies that promote inventions, patent and trademark applicants, and other private-sector entities. The bill would require promoters of inventions to provide their clients with written disclosures, increase trademark fees, and create new patent fees. The bill also would require businesses and individuals to pay additional royalties to some patent holders. CBO estimates that the total costs of the mandates in S. 1798 would fall below the threshold established in UMRA (\$100 million 1996, adjusted annually for inflation).

Title I would create a new private-sector mandate by requiring promoters of inventions to provide their customers with written disclosures before entering into contracts. Such a disclosure would have to contain information about the promoter's business history over the past five years, including the number of the promoter's customers, the number of customers who have benefitted from the promoter's services, the number of inventions evaluated for commercial potential by the promoter, and the number of those inventions that received a positive evaluation. The bill also would require promoters to reveal information about their past involvement in other businesses that promote inventions. Because these requirements

would not significantly affect promoters' day-to-day operations and because the size of this industry is small, CBO expects that the costs of this mandate would be small.

Sections 203 and 506 would create new private-sector mandates by increasing trademark fees and creating new patent fees. Trademark and patent fees are private-sector mandates because the federal government controls the trademark and patent systems and no reasonable alternatives to the systems exist. Section 203 would increase the fees the Patent and Trademark Office charges to trademark holders and applicants. Section 506 would authorize the PTO to charge a fee to individuals requesting early publication for their patent applications. Section 605 would allow the PTO to charge a fee to patent owners for delayed responses to PTO inquiries during reexamination proceedings. CBO estimates that the PTO would collect roughly \$40 million a year over the next five years as the result of the trademark fee increases and roughly \$20 million a year beginning in fiscal year 2001 as the result of the early publication fee. Collections from the delayed response fee would not be significant. The cost of the early publication fee would, however, be more than offset by savings from reductions in other patent fees. Section 202 would reduce fees for filing original and international applications, for reissuing a patent, and for patent maintenance, saving patent applicants approximately \$30 million a year over the next five years.

Two provisions in S. 1798 would require businesses and individuals to pay additional royalties to some patent holders. Section 402 would extend the terms of some patents for up to 10 years to compensate for administrative delays by the PTO. Section 504 would allow holders of new patents to file civil suits to recover damages for unauthorized use of their inventions while the applications for those inventions were under review by the PTO. These provisions would forbid the otherwise legal use of inventions covered by affected patents. CBO expects that the costs of these mandates would be small. Current law already allows patent extensions of up to five years for similar reasons and relatively few patents would be affected by the change. The right to recover damages based on use before a patent was granted would apply to only a short period of time. Under S. 1798, applications would be published 18 months after filing and, according to the PTO, successful applications are approved, on average, 24 months after filing. Consequently, users of affected inventions would pay less than six months of royalties on average.

PREVIOUS CBO ESTIMATES

On November 23, 1999, CBO transmitted a cost estimate for H.R. 1907, the American Inventors Protection Act of 1999, as reported by the Senate Committee on the Judiciary on November 2, 1999. That version of H.R. 1907 is identical to S. 1798.

On July 21, 1999, CBO transmitted a cost estimate for H.R. 1907, the American Inventors Protection Act of 1999, as ordered reported by the House Committee on the Judiciary on May 26, 1999. That version of H.R. 1907 would not reduce patent fees or authorize the PTO to adjust trademark fees. CBO estimated that legislation would increase discretionary spending by about \$37 million over the 2000-2004 period.

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