



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 21, 1999

H.R. 1907 **American Inventors Protection Act of 1999**

As ordered reported by the House Committee on the Judiciary on May 26, 1999

SUMMARY

H.R. 1907 would establish the United States Patent and Trademark Office (PTO) as an independent agency within the Department of Commerce and make a number of other changes in laws governing the issuance of patents and related procedures.

CBO estimates that implementing H.R. 1907 would result in net discretionary spending by the PTO totaling about \$37 million over the 2000-2004 period, assuming appropriation of the authorized amounts. Enacting H.R. 1907 would increase direct spending and receipts, but CBO estimates that any such effects would be less than \$500,000 in any year. Because the bill would affect direct spending and receipts, pay-as-you-go procedures would apply.

H.R. 1907 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not impose costs on state, local, or tribal governments. H.R. 1907 would create new private-sector mandates by placing requirements on companies that market inventions and by creating new fees for PTO services. New PTO fees are private-sector mandates because the federal government controls the patent system and no reasonable alternatives to the patent system exist. CBO estimates that the total costs of the private-sector mandates in H.R. 1907 would be below the statutory threshold established in UMRA (\$100 million in 1996, adjusted for inflation).

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

Title I would require invention marketing 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. Finally, title I would establish a new federal crime for providing false or misleading information to inventors and would impose fines of up to \$10,000 for each offense.

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

Title IV 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 only for domestic use, subject to secrecy orders, or no longer pending 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 IV would authorize the PTO to raise existing fees or establish a new fee to offset the cost of publishing patent applications.

Title V 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 to appeal the decision of the BPAI to the Court of Appeals for the Federal Circuit. Title V 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 VI would make the PTO an independent agency within the Department of Commerce. It would retain the same name and would be subject to the policy guidance of the Department of Commerce but would exercise more control regarding its operations and administration. This title also would establish an advisory committee for patents and one for trademarks.

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. H.R. 1907 also would require the PTO and the General Accounting Office (GAO) to complete a number of

studies for the Congress. In addition, H.R. 1907 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 H.R. 1907 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 H.R. 1907

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Changes in PTO Fees						
Estimated Authorization Level ^a	0	3	-25	-27	-28	-30
Estimated Outlays	0	3	-25	-27	-28	-30
Changes in PTO Spending						
Estimated Authorization Level	0	13	38	37	38	40
Estimated Outlays	0	8	28	34	36	39
Changes in Net PTO Spending						
Estimated Authorization Level ^a	0	16	13	10	10	10
Estimated Outlays	0	11	3	7	8	8

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 1907 will be enacted by the end of fiscal year 1999. Estimated outlays are based on historical spending patterns for the PTO and information provided by the agency.

Spending Subject to Appropriation

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 H.R. 1907 would be \$37 million higher than

under current law over the 2000-2004 period—additional spending of \$145 million less additional collections of \$108 million, assuming the necessary appropriation action.

Under current law, the PTO cannot collect or spend any user fees without prior approval in an appropriation act. Although H.R. 1907 would establish the PTO as a government corporation, the agency would still need to receive such approval in appropriation acts to collect or spend any of the user fees. CBO assumes that over time the PTO would be authorized to spend all of the fees that the agency collects.

Changes in PTO Fees. Table 2 shows the estimated fee collections under H.R. 1907 as compared to projected fee collections under current law. H.R. 1907 would require the PTO to collect some additional user fees, which CBO estimates would total \$108 million over five years.

Table 2. Estimated PTO Fees

	Outlays in Millions of Dollars, By Fiscal Year					
	1999	2000	2001	2002	2003	2004
Fees Under Current Law	-912	-984	-1,053	-1,127	-1,206	-1,290
Proposed Changes ^a	0	3	-25	-27	-28	-30
Fees Under H.R. 1097	-912	-981	-1,078	-1,154	-1,234	-1,320

Note: Fee collections are recorded as negative outlays.

a. Would require appropriation action.

Publication Fees. H.R. 1907 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 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 discretionary spending. Based on information from the PTO, CBO estimates that the PTO 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. H.R. 1907 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 H.R. 1907 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.

Provisional Application Fee. The bill would effectively waive the fee for provisional applications that later are abandoned. Based on information from the PTO, CBO estimates enacting H.R. 1907 would cause PTO to forgo about \$17 million over the 2000-2004 period.

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 H.R. 1907—an estimated \$112 million over the 2000-2004 period, primarily for publishing applications and conducting reexamination proceedings—would be more than offset by increased fee collections over that same period.

Establishing the Patent and Trademark Office as an independent agency within the Department of Commerce would result in a number of efficiencies and savings, primarily for procurement and administration, that CBO expects would be roughly offset by expenditures for new requirements in the bill and for salary increases.

Other Discretionary Costs. CBO estimates that the study required by the bill would cost GAO less than \$500,000 in fiscal year 2004. Because H.R. 1907 would establish a new federal crime, CBO anticipates that the U.S. government would be able to pursue cases that it otherwise would be unable to prosecute. Based on information from DOJ, however, we do not expect the government to pursue many additional cases. Thus, CBO estimates that implementing the bill would not have a significant impact on the cost of federal law enforcement activity. 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.

Direct Spending

Criminal Fines. Enacting H.R. 1907 could increase governmental receipts (i.e., revenues) from fines, but we estimate that any such increase would be less than \$500,000 annually. Criminal fines are deposited as revenues in the Crime Victims Fund and spent in subsequent years. Thus, any change in direct spending from the fund would match the increase in revenues (with a lag of one or more years).

Royalty Payments. Enacting H.R. 1907 could increase payments of royalties for use of an invention between the time the application was published and the patent was granted. However, CBO has no basis for estimating the timing or magnitude of such payments.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. CBO estimates that enacting H.R. 1907 would increase receipts from criminal fines and spending of those receipts by less than \$500,000 each year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1907 contains no intergovernmental mandates as defined in UMRA and would not impose costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1907 would create new private-sector mandates by placing requirements on invention marketing companies, by increasing existing Patent and Trademark Office fees, and by creating some new fees for PTO services. PTO fee increases and new fees are private-sector mandates because the federal government controls the patent system and no reasonable alternatives to the patent system exist. CBO estimates that the total costs of the private-sector mandates in H.R. 1907 would be below the threshold established in UMRA (\$100 million in 1996, adjusted for inflation).

Title I of H.R. 1907 would protect inventors by regulating their contractual agreements with invention marketers. Through an extensive cover notice and various provisions within each contract, marketers of inventions would be required to identify their services, fees, business

history, and the contractual and legal rights of inventors. They would also be required to give customers a written statement similar to the cover notice before signing contracts, and to make quarterly progress reports once contracts have been signed. Because these requirements affect content of contracts rather than invention marketers' day to day operations and because of the small size of the invention marketing industry, CBO expects that the total costs of the this mandate to the private sector would be small.

H.R. 1907 contains provisions that would authorize new fees and increase existing ones. The bill would allow the PTO to increase its fee for the publication of patent applications. Title V would create a new fee for delayed responses to PTO inquiries by patent owners in reexamination proceedings. CBO estimates that, in fiscal years 2001 through 2004, the PTO would collect an additional \$20 million dollars per year in publication fees from patent applications. Collections from the delayed response fee would not be significant.

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