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INTELLECTUAL PROPERTY

Patent Examination and Copyright Office Issues

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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to participate in the Committee's hearing on intellectual property issues. To date, we have completed work in two broad areas of interest to the Committee and have other work ongoing. The first area covers a review of patent examination issues within the Department of Commerce's Patent and Trademark Office (PTO). The second area involves work at the Copyright Office carried out during a general management review of the Library of Congress. At the Committee's request, we also are examining the fees that PTO and the Library of Congress's Copyright Office charge for their services. We plan to complete this work and report our results to the Committee early next year. In our statement for today's hearing, we are providing the Committee with an overview of the work completed on patent examination issues and Copyright Office issues.

Patent Examination Issues

Our work on patent examination issues, which was performed at this Committee's request, is discussed in detail in our July 15, 1996, report entitled Intellectual Property: Enhancements Needed in Computing and Reporting Patent Examination Statistics (GAO/RCED-96-190). This section of our statement discusses the following three areas: (1) patent pendency—the amount of time that PTO spends in examining an application to determine whether an invention should receive a patent; (2) PTO's resources committed to the patent process, the trademark process, the dissemination of information, and executive direction and administration; and (3) PTO's workload and examination process in comparison with those of other industrialized countries.

The importance of the issues addressed in our report has increased over the past year because of new legislation affecting the term of most patents. Public Law 103-465, enacted December 8, 1994, changed the term for most patents granted by the United States from 17 years from the date of issuance to 20 years from the date of the earliest filing of an application. Accordingly, the time frame for issuance reduces the effective term of the patent left to the inventor under the new law.

Current Patent Pendency Statistics Do Not Provide Information Needed

In analyzing patent pendency, we found that the overall pendency statistics being reported by PTO do not provide inventors and decisionmakers with enough information. This is particularly the case

after Public Law 103-465 changed the patent term for most applications filed after June 7, 1995.

We attributed this lack of information to four reasons. First, PTO's pendency computation method considers both issued patents and abandoned applications but does not consider applications still in-process. PTO defines pendency as the period from the date when an application is filed until the date when a patent is issued or an application is abandoned. As used by PTO, an abandoned application is any application that does not result in an issued patent and is eventually taken out of the examination process by the applicant or PTO. While PTO and other decisionmakers may be interested in knowing that overall pendency in fiscal year 1994 was 20.2 months or that applications abandoned during the year were pending for an average of 18.3 months, inventors may be most interested in knowing that the average pendency for patents issued was 21.3 months.

Second, pendency can vary widely for individual applications, depending on the type of invention and factors such as whether the application is subject to a secrecy order.[1] For example, while overall pendency for fiscal year 1994 was 20.2 months, pendency in the Computer Systems area averaged 27.6 months, while pendency in the Solar, Heat, Power, and Fluid Engineering area averaged 16.9 months. Similarly, pendency for patents issued and applications abandoned that were subject to secrecy orders averaged 62.9 months, although they were so relatively few in number that they had no appreciable effect on overall pendency. As above, such variations are of importance to the inventor, who needs to know the potential examination time associated with different types of inventions and factors such as whether a secrecy order will be imposed.

Third, pendency is higher when the filing date used is that of the original, rather than the most recent, application for the particular invention. Frequently, an application may spawn other applications during the examination process. PTO refers to the original application as the "parent" and any application emerging from the original as a "child." Some cases can involve several generations of applications. PTO's current method for computing pendency considers the filing date of the current, or child, application whereas, under the new law, the patent term will be calculated for most patents from the filing date of the parent. Thus, PTO's method does not provide inventors and decisionmakers with an accurate appraisal of how long applications are under examination.

[1]Patent applications for inventions that could affect national security interests can be placed under a secrecy order by PTO if the applicable federal agency determines that such protection is necessary.

We found that calculating pendency by using the parent filing date rather than the current filing date raises pendency significantly. For fiscal year 1994, overall pendency would have been 28 months rather than 20.2 months. Applications in process would have been under examination an average of 25 months rather than 16 months. If only those applications that had a parent were considered, the differences would have been even more dramatic—increasing from 17.9 months to 47.7 months for fiscal year 1994 and from 14.6 months to 45 months for those applications in-process as of October 1, 1994.

Fourth, the applicants themselves are partly responsible for the time taken to examine applications. PTO's current method of computing pendency includes all of the time between the filing of the application and the issuance of a patent or the abandonment of the application. It does not separate the pendency for which PTO is responsible from the pendency created by the applicant. We calculated the pendency attributable to the applicants in one area—the time taken to respond to questions raised or requests for additional information by PTO during examination. These responses accounted for an average of 3.6 months of the 20.2 months total pendency for fiscal year 1994.

Subsequent to our analysis, PTO made its own analysis of other areas where the applicant caused delays and computed an additional 3.8 months for fiscal year 1994. While we did not verify PTO's computations, adding the applicants' delays that PTO identified to those we computed would result in about 7.4 months of the 20.2-month average pendency for fiscal year 1994 being attributable to the applicants themselves.

As a result of our findings, we recommended in our report that PTO compute and report patent pendency statistics that will separately identify issued patents, abandoned applications, and applications under examination. In commenting on our recommendations, the Department of Commerce said that more was needed than just an expansion of the pendency statistics now in use. It said that by fiscal year 2003, PTO's goal is to complete the examination of each new patent application within 12 months. The Department said that PTO would continue to report pendency as it had in the past until new procedures associated with this new 12-month goal are implemented. We agree that PTO needs to track and report pendency when its new examination policy is put into effect. However, because this new policy may not take effect for several years, we believe that PTO needs to begin reporting pendency statistics in the

interim as we recommended. Furthermore, we believe this change is needed regardless of PTO's organizational placement.

PTO Allocates Most Resources to the Patent Process

In analyzing the commitment of PTO's resources to various functions, we found that PTO has consistently committed most of its resources to the patent process. In fiscal year 1995, about three-fourths of PTO's funding—all of which now is generated by fees—and staff were devoted to the patent process. Other major activities in PTO include the trademark process, the agency's executive direction and administration, and the dissemination of information. PTO's annual obligations have increased steadily in recent years. In the 10-year period from fiscal year 1986 to fiscal year 1995, PTO's annual obligations increased from $212 million to $589 million, an average annual increase of nearly 20 percent.

The increases in resources allocated to the patent process from fiscal year 1986 through fiscal 1995 do not appear to have come at the expense of PTO's other activities. Funding and staffing for these activities also increased in most years over this period. Overall, the patent process accounted for 56.6 to 75.4 percent of the obligations in individual years, while the range was 5.4 to 8.5 percent for the trademark process, 6.4 to 20.2 percent for executive direction and administration, and 9.9 to 18.5 percent for the dissemination of information.

The majority of PTO staff also was committed to the patent process during the 10-year period. In fiscal year 1986, PTO had a total of 3,180 full-time equivalent (FTE) staff; in fiscal year 1995, the total was 5,007. In individual years, the percentage of staff ranged from 58 to 75.1 percent for the patent process, 6.8 to 9.7 percent for the trademark process, 7.1 to 15.4 percent for executive direction and administration, and 8 to 22.4 percent for the dissemination of information.

Patent Examination Processes Differ Between PTO, Japan, and Europe

In comparing PTO's patent examination process with those of other industrialized countries, we found that they differ markedly. As one example, PTO considers the examination process to have begun when the application is filed. In the Japanese Patent Office, however, an application is not considered a request for examination. Rather, the applicant must make a separate request for examination, which may come at any time up to 7 years after the application is filed. Similarly, in the European Patent Office, examination is a two-phase process. A filing is taken to imply a request for a search to determine whether the invention is new compared

with the state of the art. If an applicant then desires a substantive examination for industrial applicability, the applicant must file a separate request not more than 6 months after the publication of the search.

Methods for computing pendency also differ between the three patent offices. For example, Japan and Europe consider applications in process when computing pendency, while PTO considers only those applications that resulted in a patent or were abandoned. These different computation methods would yield fundamentally different results. Consequently, caution should be exercised in comparing workloads and pendency between these offices.

Copyright Office Issues

Our work on Copyright Office issues was summarized in our May 7, 1996, testimony before the Joint Committee on the Library of Congress.[2] In October 1995, Senators Connie Mack and Mark Hatfield asked that we conduct a broad assessment of the Library's management by the spring of 1996. To help meet that time frame, given that our limited resources were already committed to other priority projects, we contracted with Booz-Allen & Hamilton Inc. to conduct a general management review of the Library. Among the issues that Booz-Allen addressed in its review that the Senate Committee on the Judiciary expressed interest in were: (1) the potential for the Copyright Office to be transferred from the Library of Congress to another organization; (2) the possible additional revenues that the Copyright Office could charge if it recovered all costs; and (3) the impact on the Library, including the Copyright Office, from revisions to its competitive selection process as a result of the settlement of a class-action discrimination suit.

Organizational Considerations

Given the era of deficit reduction in which the federal government has found itself and the need for each agency to become as efficient as possible, Booz-Allen structured its management review to include a consideration of opportunities that might exist for the Library to reduce costs and enhance revenues. Within this context, Booz-Allen looked at various aspects of the Library's organizational components and the Library's fee structure. One such aspect included the potential for transferring the Copyright Office from the Library to another organization. Booz-Allen considered four elements of copyright operations, including the long-standing relationship between the Library and the Copyright

[2]Library of Congress: Opportunities to Improve General and Financial Management (GAO/T-GGD/AIMD-96-115).

Office, copyright registration as a source of material for Library collections, linkages between cataloging for copyright purposes and for Library collections, and the revenue potential from copyright receipts. Booz-Allen pointed out that its scope did not include an assessment of the operations, efficiency, or effectiveness of organizations outside the Library that might be considered potential recipients of the copyright function or the benefits of transferring it elsewhere.

Booz-Allen concluded that while the transfer of the Copyright Office to another organization might not have negative operational impacts, the benefits of such a move were unknown and might cause significant disruption. Booz-Allen concluded that while there was little operational reason for housing the copyright function at the Library of Congress, the physical relocation of the Copyright Office could result in the office incurring an annual cost of $800,000 for leasing facilities that are now provided by the Library or the Architect of the Capitol at no cost to the Copyright Office. Also, the Booz-Allen analysis showed that while the Library saved $13 million a year from not having to purchase material obtained through copyright deposits and that this source of materials could be legislatively protected if the copyright function were housed elsewhere, the transportation and coordination aspects of such a shift would have to be assessed and would likely impose additional costs. Booz-Allen found that although both the Library and the Copyright Office perform cataloging processes, their purposes and methods were substantially different.

Cost Recovery

With regard to the fees collected by the Library for copyright registrations, which amounted to $12.6 million in fiscal year 1995, Booz-Allen noted that the Library's fee does not recover its full cost. Booz-Allen estimated that by increasing the fee to recover full cost, the Library could generate revenue in the range of $24 million to $29 million (or an additional $11 million to $17 million over current fees charged). In developing this estimate, Booz-Allen cautioned that it was predicated on the comparison of fees received in fiscal year 1995 with its estimate of the full cost of the copyright registration process and did not take into account possible changes stemming from a fee increase, such as a potential drop in the number of registrations received. Booz-Allen also said that the effect of increasing fees could adversely affect that part of the Library's mission that deals with building its collection. As Booz-Allen also reported, the Copyright Law provides the Library with the authority to adjust fees at 5-year intervals to reflect changes in the Consumer Price Index, but the

Copyright Office has elected not to do so. In its commentary concerning the recovery of all copyright fees, Booz-Allen also pointed out that the Library would first have to (1) refine its cost data and cost assumptions for the Copyright Office to obtain better cost information and (2) establish the capability and mechanisms to handle fee changes and possible multiple fee schedules.

Competitive Selection Process

As part of its management review, Booz-Allen studied how well the Library of Congress managed its human resources. Since this part of the study was Library-wide in nature, the findings do not relate specifically to the Copyright Office or any other components of the Library but would apply generally to the Copyright Office. Booz-Allen found that the Library's hiring process had been adversely affected by its settlement of a class action suit, commonly referred to as the Cook Case, which asserted the Library practiced discriminatory employment practices that denied African-American employees opportunities for promotion and advancement.

The settlement required the Library to revise its competitive selection process, make a specified number of promotions and reassignments, pay monetary relief to the class, provide Library supervisors with specified training, and eliminate any discriminatory criteria for noncompetitive personnel actions. As part of the Cook Case settlement, which was approved by the court in September 1995, the court reserved jurisdiction for 4 years to ensure compliance with the settlement. The settlement agreement is currently under appeal which would delay the start of the 4-year period.

Booz-Allen found that while efforts to revise the competitive selection process had resulted in significant improvements in the Library's racial/ethnic profile, the revised process was viewed by many Library managers and human resources staff as lengthy and cumbersome. Booz-Allen found that the median number of calendar days to fill vacancies during fiscal years 1993 through 1995 was 177 days at the Library. In comparison, three other agencies took from 30 to 120 days to hire employees. As a result of inefficiently hiring qualified employees, Booz-Allen found that the Library potentially loses highly

qualified candidates to other jobs, employees lack trust in the system, the Library pays the additional costs of contractors and internal staff time, and the Library is not able to handle changes to recruitment and selection requirements.

Mr. Chairman, this concludes our statement.

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