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INTELLECTUAL
PROPERTY RIGHTS

U.S. Companies' Views on
Patent Law Harmonization

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Mr. Lehman:

I am Allan Mendelowitz, managing director of the International Trade, Finance, and Competitiveness issue area of the General Accounting Office (GAO). I am pleased to be here today to discuss patent law harmonization. My remarks will be based primarily on the results of a 1992 GAO survey of U.S. companies regarding their comparative patent experience in Japan, Europe, and the United States and their views on patent harmonization. GAO undertook work in this area at the request of Senators John D. Rockefeller IV and Dennis DeConcini, and former Senator Lloyd Bentsen. Although the primary focus of the request was to review patent protection for U.S. products in Japan as compared with that in the United States and Europe,¹ the senators also asked us to examine progress toward harmonizing international patent law and U.S. companies' views on harmonization. Today, I will address the latter issue.

INTERNATIONAL PATENT HARMONIZATION EFFORTS

The goal of the multilateral efforts currently underway is to harmonize international patent procedures and aspects of substantive law, bridging some of the fundamental differences that exist between the U.S. patent system and those of other countries. The United States, for example, is the only developed country that awards patents to the first inventor regardless of when the patent application is filed. Moreover, U.S. patent applications are kept secret until a patent is granted. Most developed countries award patents to the first inventor to file an application and publish all patent applications after they are filed. If the patent harmonization treaty currently under consideration is agreed to, it would require fundamental changes in U.S. patent procedures as well as those used by the Japanese and European Patent Offices.

History of International Harmonization Efforts

The World Intellectual Property Organization (WIPO) of the United Nations began its efforts to harmonize world patent laws in the 1980s. Its mission was to develop a treaty that would simplify and expedite the process of obtaining patent protection worldwide and ultimately strengthen patent protection once granted. According to WIPO's Director General, a harmonized world patent system is essential because companies around the world are increasingly reliant on global markets; thus, the differences that exist today among national or regional patent offices may act as an impediment to inventors and hinder opportunities for greater trade among nations.

¹Intellectual Property Rights: U.S. Companies' Patent Experiences in Japan (GAO/GGD-93-126, July 12, 1993).

WIPO's harmonization negotiations are viewed primarily as a forum to resolve differences among patent systems of developed countries. In fact, WIPO officials anticipate that the only countries that would be signatories to the WIPO treaty would be the United States, Japan, and most European countries. Other WIPO member countries have repeatedly stated that they would not be willing to make changes in their patent systems unless the United States agrees to move to a first-to-file system. Moreover, when the United States proposed at a 1991 WIPO conference that it be allowed to retain the first-to-invent system, other WIPO member countries objected, specifying that the United States would have to adopt a first-to-file system if it wished to participate in the harmonization treaty.

CHANGES TO THE U.S. PATENT SYSTEM REQUIRED BY THE DRAFT HARMONIZATION TREATY

The draft WIPO treaty calls for patent procedures that are most similar to existing procedures used by the European Patent Office. For example, it seeks the adoption of a worldwide first-to-file system, publication of all patent applications, and a post-grant opposition system. Thus, the treaty would require two fundamental changes in the U.S. patent system: the elimination of the first-to-invent approach and publication of all patent applications after 18 to 24 months.

In 1990, the Secretary of Commerce established a commission, known as the Advisory Commission on Patent Law Reform, to study ways to strengthen the U.S. patent system and to foster U.S. competitiveness. The commission also examined harmonization issues addressed in the draft WIPO treaty. In a September 1992 report, the commission recommended the adoption of a first-to-file system and publication of patent applications after 24 months within the context of a harmonization treaty.

PROFILE OF U.S. FIRMS RESPONDING TO GAO SURVEY

To help you understand the context of our survey findings, I would like to give you some background on the companies we surveyed.

As I mentioned, we obtained U.S. firms' views on patent law harmonization in the course of obtaining information on their patent experiences in Japan. We surveyed 346 U.S. firms that were top U.S. patent holders in three sectors--chemicals, semiconductors, and biotechnology. Our universe included over 90 percent of U.S. companies that were among the top 200 patent holders in the United States in 1991. We did not include universities or other nonprofit organizations in our survey universe, nor did we include individual inventors since they generally have limited experience in filing for patents overseas.

We received responses from 300 of the companies, for an 87-percent response rate. The majority of the responding companies were large, with almost 60 percent reporting annual sales of over \$1 billion. Forty-nine percent had 10,000 or more employees; 32 percent had between 501 and 10,000 employees; and 19 percent had 500 or fewer. Ninety percent were U.S. companies or subsidiaries of U.S. companies; the remainder were U.S. subsidiaries of foreign firms. In addition to the mail survey, we conducted extensive interviews with 58 U.S. companies to gain greater insight into their patent experiences.

COMPANIES' VIEWS ON CHANGES TO THE U.S. PATENT SYSTEM REQUIRED BY THE DRAFT HARMONIZATION TREATY

We asked the U.S. companies we surveyed whether they would support or oppose having the United States adopt a first-to-file system in the context of a harmonization treaty. As shown in chart 1, 66 percent of all the responding companies either "strongly" or "generally" supported adoption of such a system, while 22 percent "strongly" or "generally" opposed it. Seven percent said they neither supported nor opposed it. As might be expected, the companies' level of support for a move to a first-to-file system was related to company size. Large companies, with more than 10,000 employees, were most supportive of a move to first-to-file, with 75 percent supporting it and only 16 percent opposed. However, even a majority of small companies, those with 500 or fewer employees, supported the move to first-to-file, --with 51 percent in favor and 25 percent opposed.

In our survey, we also asked companies for their views about whether the United States should publish patent applications after 18 to 24 months. As with moving to first-to-file, the majority of U.S. firms supported this procedural change. As shown in chart 2, 64 percent of the responding companies either strongly or generally supported publication of U.S. patent applications after 18 to 24 months, while 21 percent were generally or strongly opposed. Eleven percent said they neither supported nor opposed such a change. Again, large companies (with over 10,000 employees) were most in favor of this change--75 percent supported it, and 13 percent were opposed. Among small companies (with 500 or fewer employees), 53 percent were in favor, while 27 percent were opposed.

I should emphasize, however, that many companies told us that they would not support changes in the U.S. patent system unless Japan agreed to make significant changes in its patent system as part of a harmonization effort.

PROPOSED CHANGES IN THE JAPANESE PATENT SYSTEM COULD ADDRESS MANY PATENT PROBLEMS EXPERIENCED BY U.S. COMPANIES IN JAPAN

Our survey found that many U.S. companies are experiencing significant problems in obtaining and enforcing patents in Japan. For example, many companies said they experienced difficulty with the translation of their applications into Japanese and with long delays in obtaining patents in Japan. Attributing some of the delays to the pre-grant opposition system, which allows rival companies to raise objections to a proposed patent before it is granted, a number of companies noted that these problems were significant because pioneering inventions and technologies of high commercial value were commonly the target of oppositions.

If agreement is reached on the draft WIPO patent harmonization treaty, Japan would be required to make significant changes in its patent system. Based on our survey results, we believe that these changes would address many of the concerns U.S. companies have raised regarding patent prosecution in Japan. The major changes in the Japanese patent system that would be brought about by the draft WIPO treaty include

- the ability to file initial applications in English and to rely on the English-language original when errors are found in the translations;
- the completion of patent examinations within 2 years;
- the adoption of a 12-month grace period; and
- the elimination of the pre-grant opposition system.

The Industrial Property Council of Japan's Ministry of International Trade and Industry has expressed support for changes in Japanese patent procedures under the proposed harmonization treaty. In July 1992, the council issued a report recognizing the need for internationally harmonized patent systems and practices in light of the wider dissemination of advanced technology worldwide and shorter product life cycles. Its report recommended several changes in the Japanese patent system, including (1) allowing filing in any language and (2) eliminating the pre-grant opposition system. The council stated that Japan would be willing to enact these changes if the United States adopted provisions included in WIPO's draft treaty, such as (1) instituting a first-to-file system and (2) publishing patent applications.

COMPANIES' VIEWS ON CHANGES IN THE JAPANESE PATENT SYSTEM

We asked the U.S. companies we surveyed for their views on whether certain changes in the Japanese patent system under harmonization would improve their patent experience in Japan. As shown in chart 3, a majority (70 percent) of the U.S. companies responding to our

survey said that the allowance of patent filing in English (and the ability to rely on the English-language original when errors are later found in the translations) would greatly improve their patent experience in Japan. Fifty-two percent of the companies felt that having the Japanese Patent Office complete patent examinations within 2 years would greatly improve their patent experience in Japan; 49 percent believed the adoption of a 12-month grace period would significantly enhance their experience. Finally, 29 percent of the companies felt that the elimination of the pre-grant opposition system in Japan would improve their patent experience to a great extent.

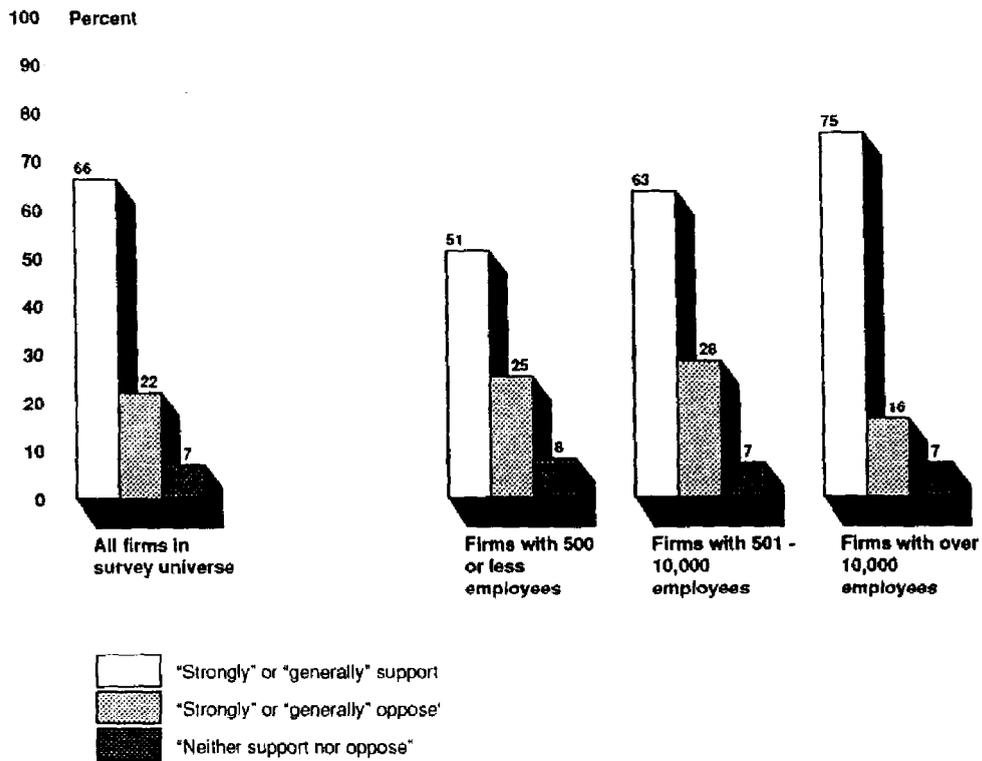
In November 1992, we met with officials from the Japanese Patent Office in Tokyo. They reiterated to us that Japan's decision to make the changes called for in the harmonization treaty hinged on action by the United States.

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Mr. Lehman, the full details of our survey results are included in our report on intellectual property rights. This concludes my statement.

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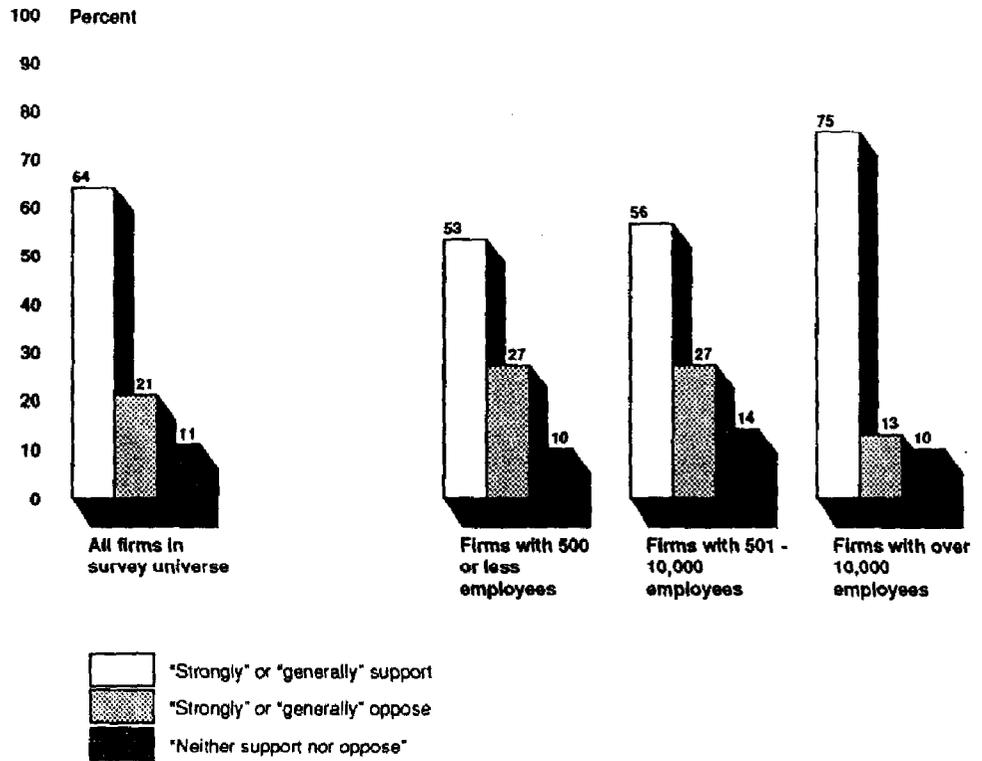
Chart 1: Percent of Firms Supporting U.S. Adoption of First-to-File System



Note: Firms with "no opinion" are not shown.

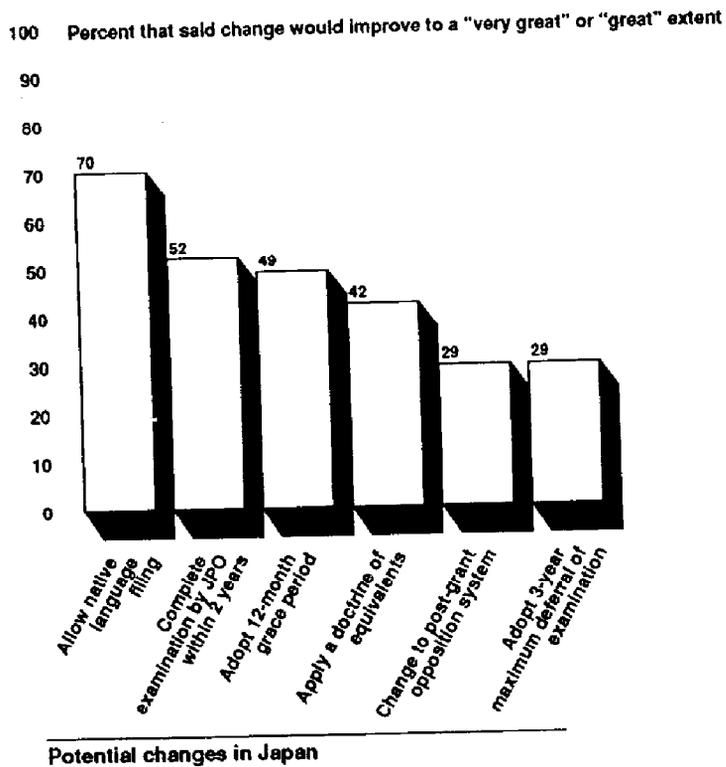
Source: GAO survey of U.S. firms.

Chart 2: Percent of Firms Supporting U.S. Publication of Applications After 18-24 Months



Source: GAO survey of U.S. firms.

Chart 3: Percent of Firms Viewing Potential Changes to Japanese Patent System Under Harmonization as Improving Their Patent Experience



Source: GAO survey of U.S. firms.

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