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Washington, DC 20548

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February 4, 2013

The Honorable Patrick J. Leahy
Chairman
The Honorable Chuck Grassley
Ranking Member
Committee on the Judiciary
United States Senate

The Honorable Bob Goodlatte
Chairman
The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
House of Representatives

Subject: *Department of Commerce, Patent and Trademark Office: Setting and Adjusting Patent Fees*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of Commerce, Patent and Trademark Office (PTO), entitled “Setting and Adjusting Patent Fees” (RIN: 0651-AC54). We received the rule on January 11, 2013. It was published in the *Federal Register* as a final rule on January 18, 2013. 78 Fed. Reg. 4212.

The final rule sets or adjusts patent fees as authorized by the Leahy-Smith America Invents Act (AIA). The fees will provide PTO with a sufficient amount of aggregate revenue to recover its aggregate cost of patent operations, while helping PTO implement a sustainable funding model, reduce the current patent application backlog, decrease patent application pendency, improve patent quality, and upgrade PTO’s patent business information technology (IT) capability and infrastructure. The fees also will further key policy considerations. The final rule also reduces fees for micro entities under section 10(b) of the Act by 75 percent in this rulemaking and extends the existing fee discount of 50 percent for small entities to additional fees in this rulemaking.

This rule is effective on March 19, 2013, except for amendments to § 1.18(a)(1), (b)(1), (c)(1), and (d)(1) (patent issue and publication fees); § 1.21(h)(1) (fee for recording a patent assignment electronically); § 1.482(a)(1)(i)(A), (a)(1)(ii)(A), and

(a)(2)(i) (international application filing, processing and search fees); and § 1.445(a)(1)(i)(A), (a)(2)(i), (a)(3)(i), and (a)(4)(i) (international application transmittal and search fees), which will be effective on January 1, 2014.

Enclosed is our assessment of PTO's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that PTO complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Jennifer McDowell
Federal Liaison Officer
Patent and Trademark Office
Department of Commerce

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF COMMERCE,
PATENT AND TRADEMARK OFFICE
ENTITLED
"SETTING AND ADJUSTING PATENT FEES"
(RIN: 0651-AC54)

(i) Cost-benefit analysis

PTO prepared a Regulatory Impact Analysis (RIA) to consider the costs and benefits of this final rule over a 5-year period (FY 2013–FY 2017). In the RIA developed for the Notice of Proposed Rulemaking, PTO offered a discussion of monetized and qualitative costs that could be derived from the proposed patent fee schedule. PTO made several inferences using internal data and relevant academic literature. Upon further review of the proposed rulemaking and source materials, and consistent with Office of Management and Budget (OMB) Circular A–4, Regulatory Analysis, as discussed further in the RIA, PTO no longer monetizes costs and benefits in the final rule or the RIA. Rather, PTO states that this final rule for the purposes of regulatory review is considered to be a transfer payment from one group to another, and discussion of all costs and benefits is qualitative in nature. Thus, according to PTO, the RIA for this final rule outlines the transfer and assesses the qualitative benefits and costs that accrue to patent applicants, patent holders, and other patent stakeholders in the United States. The RIA includes a qualitative comparison of the final fee schedule to the current fee schedule (Baseline) and to three other alternatives considered. The RIA assesses the change in qualitative costs or benefits related to the changes in the final fee schedule using certain key indicators when comparing the Baseline. The RIA concludes that the patent fee schedule set forth in this final rule has the most significant net benefit among the alternatives considered.

PTO assessed the final patent fee schedule cumulative costs and benefits for FY 2013—FY 2017 and notes that transfers will be \$13,993 million. According to PTO, costs, such as the cost of patent operations and lost patent value from a decrease in patent applications will be minimal. PTO also states that the net benefits, increase in private patent value from a decrease in pendency, and decreased uncertainty effect will provide a significant benefit, while the fee schedule design will provide a moderate benefit.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

PTO states that the changes in the final rule apply to any entity, including a small or micro entity, as defined under section 10(a) and 10(g) of the AIA, respectively, that pays any patent fee set forth in the final rule. The reduced fee rates (50 percent for small entities and 75 percent for micro entities) apply to any small entity asserting small entity status and to any micro entity certifying micro entity status for filing, searching, examining, issuing, appealing, and maintaining patent applications and patents. The final rule describes the steps PTO has taken to minimize the significant economic impact on small entities consistent with the stated objectives of applicable statutes, including a statement of the factual, policy, and legal reasons for selecting the alternative adopted in the final rule and why each one of the other significant alternatives to the rule considered by the agency which affect the impact on small entities was rejected. PTO notes that the final rule will not change the burden of existing reporting and recordkeeping requirements for payment of fees. According to PTO, the current requirements for small entities will continue to apply to small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

PTO states that the changes in this final rule do not involve a federal intergovernmental mandate that will result in the expenditure by state, local, and tribal governments, in the aggregate, of \$100 million (as adjusted) or more in any one year, or a federal private sector mandate that will result in the expenditure by the private sector of \$100 million (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, PTO believes that no actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On September 6, 2012, PTO published a proposed rule entitled *Setting and Adjusting Patent Fees*. 77 Fed. Reg. 55,028. PTO received 28 written submissions in response to the proposed rulemaking from intellectual property organizations, not-for-profit or academic or research institutions, law firms, and individuals. The summaries of comments and PTO's responses to the written comments are included in the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

PTO states that the final rule involves information collection requirements that are subject to review by OMB. According to PTO, the collection of information involved in this notice was submitted to OMB with the proposed rulemaking as a new information collection request and was preapproved under OMB control number 0651-0072.

Statutory authorization for the rule

PTO states that the final rule is authorized by section 10 of the AIA.

Executive Order No. 12,866 (Regulatory Planning and Review)

PTO states that the final rule has been determined to be economically significant and, accordingly, an RIA has been developed.

Executive Order No. 13,132 (Federalism)

PTO states that the final rule does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment.