

**UNITED STATES
PATENT AND
TRADEMARK OFFICE**



PATENT PUBLIC ADVISORY COMMITTEE
FEE SETTING REPORT
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Background

The United States Patent and Trademark Office (USPTO or Office) is funded by user fees. Under the America Invents Act (AIA), the USPTO was given the ability to set its own fees but this authority is subject to the USPTO taking specific steps to collect and consider public input. The Office is now invoking this process as part of its first biennial review since the enactment of the AIA. After completion of a biennial fee review, Director Michelle Lee communicated a new patent fee adjustment proposal to the Patent Public Advisory Committee (PPAC) on October 27, 2015. The PPAC responded as required by collecting public input and holding a public hearing on November 19, 2015. This PPAC Fee Setting Report takes into consideration the submitted public comments and input gathered from the public hearing. After considering the PPAC's input, the USPTO will then issue a fee adjustment proposal by publishing a Notice of Proposed Rulemaking to invite further public comment. The Office will then adopt the new fee schedule by Rulemaking with the new fees proposed to go into effect in the summer of 2017.

How to Analyze the USPTO Patent Fee Proposal

The PPAC believes that it is important to provide the USPTO with fee income sufficient to operate a world-class patent examination capability. The Office relies entirely on user funding. The USPTO's statutory authority permits the setting of fees, which in the aggregate are sufficient to operate the Office and support efficient implementation of critical initiatives in the areas of quality, pendency, and information technology (IT). Evaluating the aggregate fee level requires forming considered views on the USPTO's actual needs and the value to the Nation's intellectual property system of increased spending to support the USPTO's goals of quality, timeliness and organizational excellence. The perceived efficiency of the Office in spending money and the rigor with which expenditures are evaluated and prioritized are also critical. Another related lens for viewing the proposal is the life cycle cost for obtaining and maintaining patent protection. Will an increase in costs excessively deter applicants from protecting their intellectual property? Does the USPTO's financial model adequately consider the prospect that price sensitive applicants will limit filings leading to lower than projected income?

A separate issue is whether the aggregate increase has been translated optimally into individual fee adjustments. Most of the public input has focused on this important aspect rather than the USPTO's overall financial model. The levels of specific fees such as Request for Continued Examination (RCE) fees, extension of time fees, and Information Disclosure Statement (IDS) fees can influence the behavior of applicants and can indirectly affect incentives and behavior within the Office. As the report will explain, the PPAC agrees with much of the public comment that criticizes the incentive/behavior-based rationale for certain adjustments. However if one accepts that the aggregate revenue enhancement target is correct, criticism to the effect that certain fees are too high necessarily implies that other fees should be raised instead.

The PPAC Supports USPTO Fee Increases to Support the Office's Needs

The USPTO requires sustained and adequate funding to maintain its position as the best patent office in the world. Maintaining and increasing quality will require continued adequate funding in order to continue to attract and retain a skilled workforce and continue the implementation of a necessary and overdue but intrinsically costly upgrade of its IT infrastructure. A robust and secure IT system is essential.

With any fee structure, the USPTO's income cannot be predicted with certainty. Recent years saw a decrease in income compared to projected levels due to lower than expected filings. Because of this uncertainty, the USPTO's fee income should be sufficient to fund not only current operations but also its operating reserve and assure that multi-year initiatives are not impeded by short-term fluctuations in revenue.

The public input received by the PPAC as part of the fee setting process did not emphasize the implications of fee increases for the USPTO's overall revenue. However, the broad spectrum of stakeholders understands the importance of an adequately funded USPTO as evidenced by their consistent strong advocacy for the USPTO to keep the fees it collects and have the autonomy to set them. The PPAC agrees that the Office should set its fees to establish an adequate revenue stream over a sustained period to fund the people and infrastructure essential for a high quality, low pendency examination process, and to fund its operating reserve.

However, the PPAC also believes that as part of the fee setting process, the USPTO should be more detailed about the rationale for higher fees to avoid a perception of arbitrariness. Numerous public comments emphasized the need for greater transparency in the allocation of costs, historical aspects of the costs, and explanations as to why particular fees should be increased and how the increased revenues would be used (for example the quality improvements). It would be appropriate and helpful, for example, for the USPTO to outline the likely practical consequences for the USPTO's operations if the current fee structure were not changed. The public also would benefit from greater understanding of how the USPTO is prioritizing expenditures and how they are allocated between core examination functions and overhead. It also would be beneficial to understand to what extent the PTO has considered alternative approaches that involve greater adjustments on the expenditure side but a smaller fee increase. The PPAC believes that further justification is required which should help build public support for any new fee schedule.

Certain Fee Increases Raise Concerns

RCE Fees

The fee setting proposal includes significant increases to Request for Continued Examination (RCE) fees and the proposed revised RCE fees have attracted criticism from multiple commenters. Given that the work of processing an RCE occurs after the Examiner has already reviewed the patent application, performed a search, reviewed

prior art, and prepared office actions, one would expect that the time involved in the RCE review would be much less than for an initial examination, even taking into consideration that some additional work must be completed on the RCE. The new fees (for large entities \$1500 for first request and \$2000 for second and subsequent requests) therefore seem arbitrary and/or excessive. The PPAC acknowledges that the unit cost figures for RCE work given by the Office exceed the current fees but it is not understood how these costs have been allocated among the steps of prosecution or how they can be so high for a case that has already been in front of the same Examiner.

The high RCE fees seem to be as a means of trying to discourage applicants from stringing out prosecution with “unnecessary” RCEs. However, the widespread perception in the applicant community is that RCEs are a necessity rather than a choice given inefficiencies in the examination process and the current system in the USPTO that incentivize the Examiner to push for the filing of an RCE. The examination seems to vary considerably depending upon the Examiner assigned to the application. As a consequence one applicant may need one or more RCEs to navigate prosecution, while another applicant may not require any RCEs. The PPAC expects that even with higher fees, applicants will continue to file RCEs in similar numbers because they file RCEs for a quick route to patent issuance. Additionally, this problem is attenuated by the fact that the filing fees are only a small component of the overall expense of preparing and filing an RCE which mostly consists of patent attorney or agent fees. In the view of the PPAC, the enhanced RCE fees would be an added incidental expense imposed on applicants based on the vagaries of individual examinations. The PPAC urges the Office to reconsider the proposed increases to RCE fees. The PPAC recommends that the USPTO continue to focus on initiatives directed to reducing the need for RCEs and which are aligned with the Office’s goals of reduced pendency and improved quality.

Enhanced Claim Fees

The new proposed excess claim fees also seem high relative to the incremental work to be done in search and examination. If additional patent claims are legitimately deemed to be directed to dissimilar subject matter then a restriction requirement is appropriate and the applicant will be required to submit a divisional application subject to separate search and examination fees. The PPAC urges the Office to reconsider whether the new proposed excess claim fees are in fact justified or are the best solution to achieve patent quality, enhanced revenues, and maximum efficiency.

It also seems unfair that excess claim fees are assessed prior to restriction practice such that applicants are often forced to pay them even when the claims are fated to be canceled and pursued, if at all, in a separate application. The PPAC suggests that the Office consider implementing a refund scheme so that most or all of excess claim fees are refunded whenever excess claims are canceled in response to a restriction requirement. The costs for claims should reflect the claims actually examined, not just filed.

New IDS Model

The new fee proposal incorporates a significant change in the procedure for filing an Information Disclosure Statement (IDS) after a first action on the merits (FAOM). Under the proposed structure, certification under 37 C.F.R. 1.97(e) would no longer be needed nor would it be necessary to employ Quick Path Information Disclosure Statement (QPIDS) or file an RCE to obtain consideration of an IDS. There would, however, be a significant increase in fees for consideration of an IDS submitted after the FAOM or allowance.

Although good faith applicants will submit prior art prior to examination wherever possible, post-FAOM IDS practice is often unavoidable. New art often arises in related foreign prosecution or in adversarial proceedings such as litigation or post-grant reviews or reexamination of related cases, or simply in the course of an applicant's on-going research and development. The proposed increase in fees may appear to be an unfair and unjustified financial penalty on applicants who are being as timely as feasible in meeting their legal duty and bringing art to the attention to the Office. Raising IDS fees in fact can serve as a disincentive to complying with the requirement to file promptly when new prior art is discovered.

Although the PPAC appreciates the advantages of streamlining application procedures, we are also concerned that eliminating certification as a requirement may have unintended consequences on the efficiency of the examination process and patent quality. Examination works best when the Examiner has all the relevant prior art when preparing the FAOM, because realistically, that is when the Examiner can give the case maximum attention and focus. Significant new art received post-FAOM can substantially undermine the Examiner's initial analysis. Often this is unavoidable because of, e.g., developments in foreign prosecution and newly identified references. An unfortunate side effect of the proposal is that perhaps some applicants may willingly incur the fee for a late submission and delay the disclosure of significant prior art in the hope that it will be subject to a more cursory review after a FAOM. Either efficiency, quality, or both suffer in this scenario since the Examiner must consider the new references, revisit the claims, potentially redo the search, and undertake additional work to determine patentability.

Currently, an applicant can submit prior art with a certification under 37 C.F.R. 1.97(e) and if submitted within 30 days of receipt, the prior art will be considered and there is no impact on Patent Term Adjustment (PTA) for any patent issuing from that application. The new proposal would eliminate this option and perhaps result in a disincentive to early submission of new prior art because each submission of prior art after an FAOM would result in a fee. Such a scheme could result in applicants waiting to submit all new prior art until late in prosecution so the fee is paid only once. This outcome would have a negative effect on quality, pendency, and efficiency of examination.

The PPAC would suggest smaller increases to IDS fees to avoid penalizing applicants whose late prior art submissions are unavoidable while continuing the certification requirement to deter intentional delays in disclosing prior art.

Notice of Appeal and Forwarding Fees

The proposal includes substantial increases to notice of appeal and appeal forwarding fees. A likely consequence is to discourage the invocation of the appeal procedures. However, the reversal rate statistics suggest that the procedure is more frequently invoked out of necessity rather than choice. It would be inappropriate to use a targeted fee increase to discourage what are often meritorious appeals.

Fees for Post-Grant Proceedings

The PPAC and, based on the tenor of the public comments, the stakeholder community are supportive of the adjustments to the fees for Inter Partes Review (IPR), Post-Grant Review (PGR) and Covered Business Method (CBM) review. Effectively filing and defending in these proceedings is realistically an expensive proposition irrespective of the USPTO's fees. It is important that the Patent Trial and Appeal Board (PTAB) have sufficient resources to maintain a robust and timely process that fulfills the statutory mission of the AIA. However, there is room for further refinement in how fees are distributed through the process. One would think that there is more work for the PTAB post-institution and it would seem logical to impose a higher percentage of the fees at that point. It may also be sensible to subdivide the fees more finely (pay as you go) so that there might be savings if there is no oral argument or even a refund if a case settles. Mindful that some petitioners are small entities or individuals, the PPAC also suggests that the Office adopt a scaled petition fee schedule, perhaps based on the petitioner's annual revenue. However, because this process is relatively new and still contains significant uncertainties, such as the percentage of cases that will settle and thus lower the back end costs, it may be necessary to raise the fees and wait for more data that permits more finely drawn costs assessment.

OED (Office of Enrollment and Discipline) Fees

The PPAC, of course, recognizes the importance of having an effective process for ensuring compliance with the rules governing the Patent Bar. However, the PPAC is concerned about charging high fees to members of the Patent Bar who are subject to disciplinary proceedings when the outcome may well be exoneration after the facts are thoroughly vetted. It is not clear how the fee was set, how or when it would be assessed or even the rationale for the fee. The PPAC urges the USPTO to consider revising the proposal to at least allow for a refund of fees when the practitioner is ultimately found to be not at fault, or preferably by imposing the fee upon determination that disciplinary action is appropriate.

Design Patent Fees

There is broad concern in the stakeholder community that the proposed design patent fees are excessive and will deter innovators from seeking design patent protection. Although the increases would ostensibly be justified by the USPTO's stated costs, the PPAC would prefer the USPTO to intensify its focus on making the examination process more cost-efficient before imposing a fee increase of this magnitude.

Sequence Fees

More information is needed regarding the fee increases for the submission of mega-sequences, and whether the fees are to cover processing, storage or both. Understanding how the fees would be utilized would answer users' questions and clarify the need for the increases. Although the PPAC understands that citation of a sequence is under the control of applicant, the public has questioned the current rules requiring all sequences to be included within the sequence listing.

Additionally, more information is requested on the costs and any implications to the examining process for a late submission of a Sequence Listing to better understand the creation of this fee.

Copy Fees

Questions have been raised about the very high charges for copies of granted patents in the proposed fee schedule. Although this may be an infrequently utilized service, it would be beneficial to have more explanation of the apparently extremely high costs of providing it.

Conclusion

The efficacy of the US patent system depends largely on an adequately funded USPTO. An effective high quality large-scale examination system requires resources to train and maintain the knowledge of the Examiners, particularly at this time of evolving case law. For example, to promote high quality examination, the Office has been working to train examiners to rigorously and consistently apply section 112. This issue is critical to the quality of patents issued throughout the Office. Through the Enhanced Patent Quality Initiative, the USPTO has also proposed a number of ambitious initiatives, including a clarity of the record pilot, application of a Master Review Form in reviewing examination quality, and review of post-grant outcomes for application in prosecution. These require resources. But the real world consequences of inadequate application of the statutes and case law, including uncertain rights and unnecessary litigation, are far more expensive.

The USPTO must complete long overdue IT upgrades to provide the Examiners the right tools to do their jobs efficiently and effectively. Continued funding of the IT initiatives to complete key pieces of Patents End To End (PE2E), including a modernized search

capability and replacement of antiquated systems utilized to track patent applications is essential. Furthermore, it is essential that the IT infrastructure be robust and secure.

The PTAB has become an important tool to ensure the quality of issued patents. Funding it appropriately is important to assure its effectiveness and credibility.

Quality and IT initiatives require sustained long-term funding to be successful. Given the variability and unpredictability of fee income as well as the continued possibility of interruptions to the Office's access to collected fees, the PPAC appreciates the need for a robust operating reserve.

Although the need for adequate resources is clear, the public case for higher user fees would benefit from greater transparency around the Office's ongoing efforts to prioritize expenditures, reduce inefficiencies or waste, and increase productivity. It would also be useful to understand the practical consequences of continuing the current fee structure. Because the USPTO is user funded and has raised fees several times over the past few years, it is important that it operate with transparency to allow users to understand that the fees are being properly assessed, and efficiently utilized.

But even appreciating the need for increased funding, the PPAC would prefer a different approach to selecting fees to increase. The Office's proposal seeks to minimize the costs of entry to the patent examination system while raising costs at various points in the prosecution cycle such as RCE, late IDS submissions, and appeals. Raising these fees may be intended to have an incentivizing effect on the applicant community. However, a number of these actions are not necessarily under the control of the applicant. Additional prior art may be received in foreign prosecution necessitating an unexpected late IDS. Even with a good understanding of the prior art, the applicant may not know if the course of an examination will require an RCE or an appeal. Statistics evidence a non-uniform outcome of examination. Some Examiners have more RCEs filed than others in comparable arts, the pre-appeal and appeal conference statistics reveal a fair number of final rejections which are found to be non-sustainable, raising the costs and lengthening prosecution for those applicants. Furthermore, USPTO fees are but one component of the overall cost to the applicant, often being outweighed by patent practitioner fees, thereby attenuating the incentive. The practical effect on applicants of emphasizing mid-prosecution fees is to increase the uncertainty of the cost of obtaining a patent.

There are alternative approaches to fee setting that are not primarily focused on applicant incentives. One straightforward approach is to simply raise most fees across the board to the extent deemed necessary to achieve the needed revenue level. This approach does not target any behaviors and thus might be perceived as more fair. The IPR and PGR fee increases seem relatively uncontroversial and might be retained in this approach.

An alternative approach is to increase the front-end costs of filing, search, and examination, as well as issuance, rather than appeals, RCE, and other unforeseeable events. This approach may be in tension with the longstanding philosophy of encouraging entry into the patent system with lower front end costs. However, focusing the increase in fees on events that necessarily occur during the course of prosecution from filing to issuance, while limiting the increase in fees on unforeseeable events, is a possible option to distribute the fees across all applicants and perhaps mitigate against some of the current uncertainties.

The current proposal leaves maintenance fees undisturbed, an attractive feature to many stakeholders given their already high level, especially at the third stage. But there may be an opportunity to both increase revenue and decrease the controversial third stage fee by raising the maintenance fees at the first two stages, or alternatively only the second stage maintenance fee. The maintenance fee distribution has remained unchanged in recent decades even while the mix of patented technologies with associated disparate value profiles over time has changed. For example, a software patent may experience its peak value early in its term whereas a pharmaceutical patent for an approved drug will often remain very valuable at the end of the term. A reevaluation of the maintenance fees for each stage may be appropriate.

In the long run, however, maintenance fee income may be negatively impacted as the changing legal environment limits patent grants or further contribute to uncertainty about already granted patents in certain fields of technologies. If this occurs, it may become necessary to increase fees in the early stages of prosecution, essentially ending the approach of back-loading fees to encourage easier entry into the system.

The PPAC agrees that an overall increase in fees is necessary at this time to improve quality, complete the long overdue modernization of the IT infrastructure, and make up for the shortfall in revenues due to lower than expected filings experienced in 2015. However, the USPTO should continue to identify and implement cost-cutting initiatives to maintain its status as an efficient and well-run organization.

The PPAC views the biennial fee review process as invaluable. The USPTO is in the best position to assess its funding needs and to set fees accordingly. The current fee-setting authority with the requirement for public notice and public comment, along with the review and report from the PPAC provides a robust mechanism for the review of and regulator to the resulting fees. To better provide the USPTO with the flexibility needed to permit regular reviews and modifications of their fees and ensure a steady revenue stream to fund the world class patent office, the PPAC recommends that the USPTO's fee setting authority be extended beyond 2018 and made permanent.

The PPAC appreciates the hard work and thorough analysis of the USPTO staff in preparing the new fee adjustment proposal. Meeting the USPTO's funding needs is critical for our innovation system and our Nation's economy. We hope that this report

is beneficial in refining the proposal and thereby supporting a successful US patent system.