Why the USPTO Should Adopt a Deferred Patent Examination System

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A DEFERRED PATENT EXAMINATION SYSTEM
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Abstract

To date, the United States Patent & Trademark Office (USPTO) has addressed its two main issues - backlog and stretching pendency times - primarily by throwing resources at them. This approach has failed. This paper explores how the USPTO adopting deferred examination on all non-provisional U.S. patent applications - similar to current Patent Cooperation Treaty practice - would help alleviate these issues. This paper proposes a deferral system, demonstrates how deferred examination could be done at the USPTO as part of its normal practice of examining patent applications, and discusses policy considerations that support and are antagonistic to the USPTO nominally conducting deferred examination. The proposed deferral system will help examination be done right the first time by enabling more complete prior art searches and office actions, and is not dependent on hiring more examiners. If the USPTO implements deferred examination similar to that presented in this paper, progress can be achieved in reducing transaction costs, facilitating innovation and trade, and harmonizing our patent laws with the world. Additionally, a deferred system would enhance the technical and legal capabilities of the USPTO examiner corps while substantially saving USPTO resources; increase the quality of issued patents; and increase the public’s confidence in our patent system. Potential concerns such as lack of notice, submarining of patents, shifting the cost burden to patent challengers, and U.S. labor issues are either directly addressed with the proposed deferred examination system or are more directly related to other issues such as damages and outdated litigation laws.

1 DePaul Journal of Art, Technology, and Intellectual Property, Vol. 20, Forthcoming March 2010. U.S. Patent Agent #58900; J.D. Candidate, The University of Akron School of Law, December 2010; B.S. Computer Engineering, Purdue University. I thank my family for their unending support and encouragement of me throughout my law school and professional careers.
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I. INTRODUCTION

On February 12, 2009, the United States Patent and Trademark Office (USPTO) hosted a roundtable discussion (“Roundtable”) on the topic of deferred examination. This Roundtable discussed the advantages and disadvantages of the USPTO adopting deferred examination; its national impact on applicants, the public, competitors, and on the USPTO’s pendency and workload; and its international impact. This paper examines whether the USPTO should conduct deferred examination on all non-provisional U.S. patent applications, similar to current Patent Cooperation Treaty (PCT) practice. This paper provides a proposed deferral system, demonstrates how deferred examination could be done at the USPTO as part of its normal practice of examining patent applications, and discusses policy considerations of why the USPTO should and should not nominally conduct deferred examination. This paper does not cover tangentially related ideas that former USPTO Director Jon Dudas put forth, such as allowing applicants up to five years to claim priority on a provisional application, nor allowing an extension of 14 months to respond to a notice to file missing parts before the USPTO can examine an application.3

A. Current State of USPTO and PCT practices

The USPTO processes patent and trademark applications, and has largely been a fee-funded agency for the past twenty years.4 The USPTO currently employs more than 9,000 people, two-thirds of whom are examiners; and the majority of those examiners have less than

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three years of examining experience. Some key USPTO operating statistics from ten years ago to present show ever-increasing problems of application backlog and stretching pendency times, despite a swell in expenditures. These statistics include a budget from $560 million to a near four-fold increase of over $2 billion; an examiner corps from 2,600 examiners to 6,000 examiners; from 240,000 new applications filed per year to a near two-fold increase of 464,000, with an application backlog from 480,000 to a near three-fold increase of over 1,200,000; and an average pendency time amongst all art units from 24 to 32 months. The 464,000 new applications being filed per year will only increase over the next few years, largely due to an influx of applicants from China and India. This, in general, is due to foreign corporations understanding the commercial need to have a corresponding American patent to their home country patent. In the coming years, this new application rate could swell to over 600,000 per year. In addition to this 1.2 million application backlog, many of the examiners hired over the recent years have already resigned, resulting in examiners with little experience leaving, only to be replaced by examiners with no experience.

In 2002, Mr. Dudas proposed an 18-month deferred examination system as a way to deal with the backlog. However some of the influential trade associations of the patent bar pushed back strongly, and demanded that the USPTO receive full funding and use those funds to hire as many examiners as necessary to fill the backlog. To date, the USPTO has addressed its two

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5 Id. at 3, 8.
9 Id. at 16.
10 Id. at 33.
11 Id. at 6
12 Id. at 3-5.
main issues - backlog and stretching pendency times - primarily by throwing resources at them.\footnote{And in a secondary fashion by useful, yet underutilized, pilot programs such as the First Action Interview pilot and Accelerated Examination. In the First Action Interview pilot, a preliminary office action is issued, then a face-to-face interview between the examiner and prosecution attorney takes place to work out the prosecution issues, and then an official first office action is issued. In Accelerated Examination, the entire prosecution lifecycle takes place over the course of twelve months, but the quid pro quo is that applicants submit a detailed search report, amongst other requirements. University of Akron “IP Policy and Politics” Course – presentation by Andrew Hirshfeld, Acting Deputy Commissioner for Patent Examination Policy, March 17, 2009.}{13}

These trade associations were not receptive to alternate, more creative solutions, such as the USPTO adopting a deferred, PCT-like practice to address the backlog and stretching pendency times.\footnote{See e.g. “RE: Comments on Proposed Rules: ‘Changes to Practice for the Examination of Claims in Patent Applications,’ 71 Fed. Reg. 61 (Jan. 3, 2006)”, Intellectual Property Owners Association, page 2, 5, available at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/ipo.pdf.}{14} The Intellectual Property Owners Association (IPO), one of the key trade associations in IP matters, resisted alternative solutions because the IPO felt such alternatives would harm the interests of patent owners and would fail to address the backlog issue.\footnote{Id.}{15} In addition, the IPO felt that throwing resources at the backlog and stretching pendency times would be the most effective course of action.\footnote{Id.}{16} As the statistics above demonstrate, this approach has failed.

An overview of the salient parts of PCT practice is in order. Nations that are signatories to the PCT “constitute a Union for cooperation in the filing, searching, and examination of applications for the protection of inventions.”\footnote{Patent Cooperation Treaty, Art. 1.}{17} First, an inventor (applicant) within a PCT-member country files their local patent application to establish the application’s priority date.\footnote{John H. Hornickel. University of Akron School of Law. International Patent Law - Winter 2009 charts, slide number 27 “The PCT System”; see Patent Cooperation Treaty, Chapter I (International Application and International Search) and Chapter II (International Preliminary Examination).}{18} Then, the applicant files a single PCT application up to 12 months from the priority date that, by default, designates all PCT member countries.\footnote{Id.}{19} Sixteen months from the priority date, an international search report (ISR) of prior art and a written opinion of its impact are provided to
the applicant from the patent office performing that search (international search authority/ISA). 

The applicant can then decide whether the claims are supported by the written description and prior art limitations, given the ISR. Eighteen months from the priority date, the PCT application is published. Finally, the applicant can choose to file a demand to obtain a preliminary examination of patentability, or choose to wait until thirty months from the priority date to enter the national stage and elect which PCT member countries to seek patentability, and begin substantive examination of the application and paying of fees. 

Compare this thirty month window of beginning substantive examination under the PCT/deferred examination model to the USPTO’s current model: it takes anywhere from 20 to 45 months, depending on the art unit, for the USPTO to begin substantive examination on a non-provisional application, via a first office action. Therefore, the USPTO implementing deferred examination would not be incompatible with a PCT applicant electing to wait up to 30 months before entering the national stage for deferred examination.

B. USPTO Patent Quality and the Need for a Deferral System

The quality of examinations is directly proportional to the quality of the issued patent, and thus, the confidence of a nation’s patent system to its citizens and businesses. The USPTO has asserted that the quality of its issued patents is improving; however some stakeholders

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20 Id.
21 Id.
22 See id.
24 U.S. Chamber of Commerce Recommendations at 5.
25 Some USPTO quality metrics include an allowance error rate from 5.3% in Fiscal Year (FY) 2004 to 3.7% in FY’08; an in-compliance rate (percent of office actions without error) from 82% in FY’04 to 92% in FY’08; and a Board of Patent Appeals and Interferences affirmance-on-patentability rate from 62% in FY’06 to 77% in FY’09. See University of Akron “IP Policy and Politics” Course – presentation by Andrew Hirshfeld, Acting Deputy Commissioner for Patent Examination Policy, March 17, 2009.
would differ in that assertion. The IPO coordinated a survey amongst its corporate members about U.S. patent quality, and over half of those surveyed indicated that such quality was lacking; and over three-quarters of those indicated that the state of such quality would remain stagnant, or even worsen, in the coming years. Moreover, the U.S. Chamber of Commerce is advocating that in order to achieve true U.S. patent quality, examination should be performed “right the first time” via more comprehensive prior art searches and more complete office actions.

Assessing the true scope of prior art is difficult. This assessment is especially difficult under some of the anticipation standards of 35 U.S.C. §102: where the subject matter was known or used by others in the U.S. or patented or publicized by others anywhere before the date of the invention per 102(a); and where the subject matter was patented or publicized by anyone at any place, including the inventor, or was in public use or on sale by anyone more than one year before the effective filing date of the application, per 102(b). For example, a complete understanding of the foreign prior art in China would involve having to translate the 700,000 Chinese applications published in China each year, where the Chinese published applications do not have a foreign counterpart and, therefore, no related English language application.

These unknown gaps in discovering material prior art often result in the churning of applications, where one has to file a continuing application, such as a Request for Continued

26 During the Roundtable, participant Gordon Arnold of the American Bar Association argued that the examiner corps’ failure – due to English being a second language to some examiners and poor quality office actions amongst the entire examiner corps - has led to a lack of patent quality. <https://uspto.connectsolutions.com/p91717658> (last visited April 2, 2009) (“Roundtable webcast”).
28 U.S. Chamber of Commerce Recommendations at 3.
29 See Wegner Recommendations at 21, 49.
30 Id.
Examination (RCE), to account for this newly discovered prior art in the middle of prosecution.\textsuperscript{31} An undesirable consequence of continuing practice is that the examiner refuses to admit an amendment nor allow evidence, all in order for the examiner to meet their production quotas, also known as “beans.”\textsuperscript{32} The U.S. is the only country to have RCEs as part of its normal prosecution practice.\textsuperscript{33} Therefore, another factor that will help reduce the backlog, in addition to having more foreign, material prior art present earlier on in prosecution, would be to eliminate continuing applications practice.\textsuperscript{34} The elimination of continuing applications will compel prompt presentation of evidence and claims.\textsuperscript{35}

Three years ago, the USPTO received a flood of over 400,000 national phase patent applications via PCT.\textsuperscript{36} Each of these applications contained a search report of relevant prior art that the USPTO examiners can wholly ignore.\textsuperscript{37} Many of these applications, therefore, involved duplicative prior art search and anticipation and obviousness analysis by the USPTO that wasted schedule, resources, and pendency time. Furthermore, the current Patent Reform Act of 2009 includes a Search and Examination Functions provision that precludes the USPTO from having any entity other than a U.S. government employee examine patent applications and conduct prior art searches.\textsuperscript{38} The USPTO is merely throwing resources at the backlog and pendency problems, and this approach will not solve those problems. The USPTO projects that such an approach will

\textsuperscript{31} Id. at 52, 58-60. \\
\textsuperscript{32} Curtis Rose, Prosecution of Electronics and Software Patents, §10.03 Electronics and Software Patents: Law and Practice, 2000. \\
\textsuperscript{33} Wegner Recommendations at 62. \\
\textsuperscript{34} Id. at 56, 61. \\
\textsuperscript{35} Id. \\
\textsuperscript{36} U.S. Chamber of Commerce Recommendations at 10. \\
\textsuperscript{37} Id. \\
Ron Katznelson, one of the Roundtable’s core participants, demonstrated that the USPTO’s patent application disposal capability consistently fails to withstand the current filing rates of applications. His metric for a stable versus unstable examination system is a queue-loading ratio (QLR) of 1, which is an equal number of applications filed over the number of disposed applications. Katznelson shows that the USPTO is currently at a QLR of approximately 1.20, meaning an examination shortfall of 20%, and thus an unstable examination system.

Should it choose to adopt a deferral system, the USPTO, in one conservative estimate, may well free itself of about 1 million examiner-hours. In another estimate, under a three year deferral system, there would be a 15-25% total savings in examination workload due to a dropout of unexamined applications, plus claims dropping out and original claims being withdrawn. In yet another estimate, implementing deferred examination will eliminate, via no follow-up examination requests, over 40% of projected applications that otherwise would have to be examined each year.

A proposed deferral system is presented below, which will help in examination being done right the first time by enabling more complete prior art searches and office actions.

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39 See Katznelson Recommendations at 3, 19. Compare ‘UPR Applications Filed’ with ‘UPR Disposals’.
40 Id. at 4.
41 Id.
42 Id.
43 Id. An additional problem with the status quo system is that the USPTO has to waste its resources on all applications that come in because prior art searches are done in parallel with examination. On the other side, the applicant is effectively bound to proceed with examination because he has expended so many resources to get the examination into the queue.
44 Katznelson Recommendations at 3. Approximately half of this total savings would result from unexamined applications.
45 Wegner Recommendations at 34.
II. THE PROPOSED DEFERRAL SYSTEM

A. General Sketch and Search Reports

One component of this proposed deferral system would be a proposal for work sharing amongst the USPTO, European Patent Office (EPO), and the Japanese Patent Office (JPO). These three patent offices handle the majority of worldwide patent applications. Other offices could be included as partners in this work sharing group, including the Chinese Patent Office. Each office would rely on other partner offices’ work in search and examination - a full-faith and credit provision - to help reduce backlog amongst all offices. In other words, a work sharing system would exist whereby one examiner does the worldwide prior art search and substantive examination work that any other partner office could conduct. The home office would have to take into account foreign search and examination reports from parallel proceedings. This provision would be full-faith because the home office could not overturn search and substantive examination results. The home office holds the ultimate decision in allowing or denying issuance of the patent application, with an appeals route possible. Such a system ought to work for the USPTO, given that the USPTO has the highest percentage of foreign-based applicants, and factoring in this with the amount of U.S. applicants filing abroad, it could very well be that over half of all world cases can use this scheme. Even many groups that oppose the USPTO adopting deferred examination agree that global patent office work sharing will lead to more

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48 Wegner Recommendations at 74-75.
49 Id. at 75.
substantive patent law harmonization, and more results from one office that can be leveraged to more effectively exam applications.\textsuperscript{50}

Sometimes, statutory prior art is not available on public websites, and many documents originally exist only in non-English languages, which take considerable amounts of time for an English translation to become available.\textsuperscript{51} The EPO, Chinese, and Japanese examiners can assess the true state of non-English prior art, similar to multiple PCT ISRs.\textsuperscript{52} Here, the USPTO examiners would be required to use these search reports and respond to their relevance, and the applicants would receive these reports in a timely fashion and not be required to respond to their relevance. These search reports would be sent to the applicant before the deferral deadline (duration) to start examination, and would be published either at eighteen months from filing of the application, or between eighteen months and the end of the deferral period.\textsuperscript{53} This would enable applicants to get a preview and understanding of the technical hurdles that lie ahead in achieving issuance. In sum, the deferral period gives USPTO examiners the benefit of additional, relevant information via the passage of time, which results in better, more substantive examination of patent applications.\textsuperscript{54}

This proposed deferral system is not dependent on hiring more examiners, and therefore not dependent on whether Congress stops fee diversion, as such a stop would likely result in an


\textsuperscript{51} \textit{Id.}

\textsuperscript{52} \textit{Id.} at 50.


\textsuperscript{54} \textit{See id.}
even larger examiner corps.\textsuperscript{55} This proposed deferral system might not solve all the backlog and pendency problems. The USPTO approach will have to be multi-pronged, such as increasing the capability of its examiner workforce and retaining them, continuing to implement its accelerated examination and peer-to-patent programs, adopting applicant responsibility measures\textsuperscript{56}, implementing a fee-for-service model and a fee structure to encourage best practices, ending continuation practices\textsuperscript{57}, and adopting global patent office work sharing, in addition to adopting deferred examination.\textsuperscript{58}

IBM’s proposal for deferred examination includes several different deferral routes, such as an applicant paying the search fee, resulting in both the application and search report publishing eighteen months from filing; deferring both search and substantive examination until after the application publishes; abandoning the case based on information in the search report; or abandoning the case before even paying for the search report because the applicant no longer wishes to pursue prosecution, such as when the invention no longer has commercial potential.\textsuperscript{59}

\textbf{B. Duration of Deferral Period}

One of the first specific questions on how to implement this proposed deferral system is how long to allow deferred examination. There is debate amongst scholars as to how long to make the deferral period: the prevailing view is to allow deferral for up to three years from the


\textsuperscript{56} Such applicant responsibility measures could include capping the number of independent claims, allowing examiners to clarify claims prior to searching, requiring responses to written opinions prior to examination, and limiting voluntary amendments. Eli Lilly Recommendations at 13.

\textsuperscript{57} See discussion in infra VI(A).

\textsuperscript{58} See generally Eli Lilly Recommendations. The current administration will have to prioritize these prongs, but one of them should be adopting deferred examination. See “How President Obama Can Restore Our Patent System”. Intellectual Property Today, April 2009, Volume 16 Issue 4, Page 13.

\textsuperscript{59} IBM Recommendations at 8.
effective filing date\textsuperscript{60}; others suggest up to five years.\textsuperscript{61} Regardless, the applicant would not be required to select the amount of months he chooses to defer.\textsuperscript{62} Deferred examination has the benefits of allowing more prior art to become available to examiners over time.\textsuperscript{63} The longer the applicant waits to initiate substantive examination of his application, the greater probability that more previously undiscovered prior art arises.\textsuperscript{64}

Harold Wegner, a prominent IP scholar, proposes five years of deferral to allow for the elimination of over 40\% of projected applications that would otherwise have to be examined, via no follow-up examination requests; and once that happens, the USPTO can lessen the deferral period to 3 years by its own rulemaking mechanisms.\textsuperscript{65} Another reason for having the deferral period initially run for five years is that the biotech, pharmaceutical, and chemical industries rely on \textit{de facto} deferred examination to flesh out prior art, and these art units file more information disclosure statements than other art units.\textsuperscript{66} Yet another reason to have the deferral period to run for five years is that new technologies need time before they can reasonably be determined to be commercially viable, and so the applicant need not risk wasting time and resources on prosecuting an application that becomes unmarketable.\textsuperscript{67} Perhaps Mr. Wegner’s most compelling reason to allow the initial deferral period run for up to five years is to allow the USPTO to resolve its 1.2 million current application backlog, then shorten the deferral period by art unit/industry once the current backlog is removed.\textsuperscript{68}

\textsuperscript{60} See \textit{e.g.} IBM Recommendations, Kaztnelson Recommendations.
\textsuperscript{61} See \textit{e.g.} Wegner Recommendations at 36-38.
\textsuperscript{63} IBM Recommendations at 1.
\textsuperscript{64} Id.
\textsuperscript{65} Wegner Recommendations at 36-38.
\textsuperscript{66} Id. at 39-41.
\textsuperscript{67} Id. at 46.
\textsuperscript{68} See \textit{id.} at 71, 88.
An additional benefit of allowing applicants to defer examination for up to five years from the date of filing is that applicants can choose when to exit deferral.69 An applicant would request examination before the deferral period runs out by paying the examination fee.70 Such a rule also benefits the USPTO in that the majority of examiners, who have less than three years of examining experience, can gain that vital experience by working on applications that precede the adoption of this proposed deferral system. To limit uncertainty and prejudice of the competitors of the applicant, the length of deferral should initially be set to five years.

C. Third Party, On-Demand Examination

The proposed deferral system would also include a rule whereby third parties, such as competitors to the applicant, can demand earlier examination of any application by paying a fee.71 Those who wish not to wait until the end of the deferral period will be able to request early examination, because the backlog will have been reduced.72 This proposed deferral system would also serve one of the main goals of the patent system, which is early dissemination of advances in technologies. Third parties can anonymously request a search and/or examination of a published application after submitting a declaration, per 37 C.F.R. §10.18, paying fees, and, if desired, submit prior art at that time, per 37 C.F.R. §1.99.73

69IBM Recommendations at 1.
70Id.
71U.S. Chamber of Commerce Recommendations at 20; IBM Recommendations at 1. The U.S. Chamber of Commerce recommends that third parties be allowed to initiate examination at any time in the prosecution process, however the Bennett and Kappos analysis of third parties being allowed to initiate examination eighteen months from filing is more in line with current USPTO practice.
72Wegner Recommendations at 84.
73Katznelson Recommendations at 15.
Should such a rule be adopted, the U.S. Chamber of Commerce recommends that examiners be given reduced credits in meeting their production quotas (“beans”) for such work that recognizes search results and other work done by first filing offices, in order to remove disincentives for examiners to speed up the prosecution process. This recommendation matches a current USPTO Joint Labor-Management Task Force proposal to revamp the beans system, which includes decreasing credits for examining RCEs. Such a proposed deferral system would speed up the prosecution process, something that major patent stakeholders could subscribe to. Theoretically, this proposed deferral system would speed up the processing of non-deferred applicants, as fewer applications will be in the examination queue.

Additionally, this proposed deferral system would provide for early publication of deferred applications to serve as notice to the public and enforcement of the written description and enablement requirements. When the USPTO grants the deferral request, it would eventually make the content of the application and search report available to the public. This

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75 See U.S. Chamber of Commerce Recommendations at 10-11; “How President Obama CanRestore Our Patent System”. Intellectual Property Today, April 2009, Volume 16 Issue 4, Page 12. However, see infra Section VI(d) for a discussion on the hurdles of doing this. Specifically, such a change in the production system would have to be negotiated between the USPTO and the examiners’ union. “How President Obama Can Restore Our Patent System”. Intellectual Property Today, April 2009, Volume 16 Issue 4, Page 12.
78 See IBM Recommendations at 6.
79 35 USC 112, 1st paragraph requires that the application contain a written description of the invention being claimed; in other words, the application has to convey to the person of ordinary skill in that art what it is being claimed. 35 USC 112, 1st paragraph also requires that the application enables a person of ordinary skill in that art to make and use that invention; in other words, the application has to provide a method of making and using the invention possible, without undue experimentation. The Court of Appeals for the Federal Circuit (CAFC) will soon address in an en banc rehearing whether 35 USC §112, paragraph 1 contains a written description requirement, separate from an enablement requirement. *Ariad Pharmaceutical vs. Eli Lilly*, CAFC Docket #2008-1248, Federal Circuit Pending Argument Calendar <http://www.cafc.uscourts.gov/calendar.html>, CAFC Order <http://www.cafc.uscourts.gov/opinions/08-1248ebo.pdf>.
benefits the public in that they will have an easier time finding relevant prior art in their field, and in understanding the technical challenges associated with issuing current applications.\textsuperscript{80}

\textbf{D. Intervening Rights to Third Parties}

A third way to reduce concerns of uncertainty and prejudice in adopting a deferred system is to grant intervening rights to third parties that, in good faith, commercialize the same invention during the deferral period.\textsuperscript{81} More specifically, only those qualified third parties would have a legal, intervening right to practice that same, later-claimed invention.\textsuperscript{82} Deferred examination has to address potential prejudices and uncertainty towards competitors of the applicant, and provide incentives to applicants to adopt deferred examination.

\textbf{E. Fee Schedule}

The USPTO should also adopt a tiered payment system to defer at least some of the search and examination fees until the applicant requests examination – essentially, a “pay as you go” fee schedule.\textsuperscript{83} This pay as you go fee schedule has multiple benefits, for both applicants and the USPTO. Applicants who decide to abandon the application obtain an overall savings in costs by not paying those search and examination services which were never rendered, and the USPTO can allocate its resources towards more relevant, pending applications.\textsuperscript{84} Another benefit is that with a low filing fee, the USPTO can more easily suggest imposition of a high examination fee at the end of the deferral period, which would result in many applications having

\textsuperscript{80}See IBM Recommendations at 4.  
\textsuperscript{81}Id.  
\textsuperscript{82}Id.  
\textsuperscript{83}Id.  
\textsuperscript{84}Id.
The USPTO should also consider reduced fees for any additional services if that applicant were to adopt deferred examination.

The USPTO could also consider refunding excess claims and excess pages fees to increase the applicant’s incentive, and could also refund search fees if that search predated the first action on the merits. If the USPTO were to refund the search fee, the USPTO would need to balance the burden of losing current cash in refunding the search fee – albeit that cash not being a relatively large source of revenue – with the benefits of additional claim dropouts and saved man-hours. The USPTO would also need to balance the reality that many third party requesters are knowledgeable in that art area and have a vested interest in producing relevant search results.

F. Extension of Patent Term Only Due to USPTO Delays

No extension of patent term should be made merely for the act of deferring examination. Such an extension would extend the monopoly of the patent owner, without a proportionate benefit to the public. Some art areas, such as pharmaceuticals and biotech, would likely support deferred examination if the patent term, and thus their large R&D investment, were not adversely adjusted. These particular industries have an urgency to file applications quickly, given the competitiveness of these industries. However, the Food and Drug Administration and other agencies heavily regulate the majority of the products in these industries; therefore there really is

85 Wegner Recommendations at 55.
87 See Katznelson Recommendations at 29.
88 Id.
little to no need for these industries to have hastily issued applications.\textsuperscript{90} Moreover, the USPTO art unit that examines such applications typically has one of the longest pendency rates.\textsuperscript{91}

Extensions to a patent’s term should only take place for those delays caused by the USPTO after the applicant has requested examination and paid the examination fee.\textsuperscript{92} Any delay in issuance due to the applicant’s deferral would result in a subtraction of patent term extension credit, per 35 U.S.C. §154(b).\textsuperscript{93}

III. APPLICATIONS UNDER THE PROPOSED DEFERRAL SYSTEM

A. New Applications

For new applications filed on or after the effective date of deferred examination, the applicant could operate under the status quo of examination practice, or choose to defer examination of his application for up to five years. If the applicant chooses deferral, he can execute and file with the USPTO a Declaration and Non-Exclusive Limited Power of Attorney, which designates any third party to act on the Applicant’s behalf as Applicant’s authorized agent for perfecting (completing) the patent application per 35 U.S.C. §111(a).\textsuperscript{94} Applicants who do not file a request for examination within the maximum deferral period would have their application abandoned by operation of law.\textsuperscript{95} The application would not be examined, and the applicant would lose any benefit of an earlier filing date.\textsuperscript{96} Some would argue that it would not

\textsuperscript{90} Id.
\textsuperscript{91} See Katzenelson Recommendations at 12, art unit #1600.
\textsuperscript{93} Id.
\textsuperscript{94} Katzenelson Recommendations at 15-16.
\textsuperscript{95} Id. at 15.
\textsuperscript{96} Id.
be productive to have the patent term run during the deferral period without any tolling nor 
extension provision, as the current optional deferred system is not being used because of this 
inflexibility. However, the patent term should run during deferral, and extensions to a patent’s 
term should only take place for those delays caused by the USPTO after the applicant has 
requested examination and paid the examination fee. Any other circumstance would extend the 
monopoly of the patent owner without any additional quid pro quo benefit to the public. 

Applications subject to a secrecy election, per 35 U.S.C. §122(b)(2)(B), would not be 
allowed to be deferred, and would be examined according to the status quo examination track.

B. Current, Pending Applications 

For current, pending applications filed before the effective date of deferred examination, 
the applicant can choose to defer his application if there has been no first office action on the 
merits, the application is not subject to a secrecy order, per 35 U.S.C. §122(b)(2)(B), and the 
application has an effective filing date of less than fifty-eight months before the effective date of 
defered examination. For all such qualified, pending applications, the USPTO would send a 
Refund Election Action to all such applicants, and require a response within sixty days, electing 
either an examination deferral election, under which the applicant would receive a refund of the 
Examination Fee, or continuation of the status quo examination track.

97 Roundtable panelist Hans Sauer of the Biotechnology Industry Association (BIO) indicated that BIO members 
opportunistically used the deferred system, and do not use the current optional system under 37 CFR 1.103(d) due to 
the forfeiture in patent term adjustment. Roundtable webcast. <https://uspto.connectsolutions.com/p91717658> (last 
visited April 2, 2009).  
98 Katznelson Recommendations at 15.  
99 Id. at 17.  
100 Id. The up to fifty-eight months pendency plus two months Refund Election Action would make examination 
deferral in all cases be up to the maximum proposed deferral period of five years after the application’s effective 
filing date. 
101 Id.
If the applicant provides no response to this request, the application will be deemed abandoned, which the USPTO can do “[u]pon failure of the applicant to prosecute the application within six months after any action therein…” per 35 U.S.C. §133.102 This alone would result in more abandoned applications and a smaller backlog, as a majority of applications in the current backlog would qualify for deferred examination. However, if all fees were already paid and the application was already perfected, per 35 U.S.C. 111(a), the USPTO would not be able to suspend examination of such applications, per 35 U.S.C. §131.103 Also, current applicants might not have much incentive to defer unless the USPTO allows them to get a refund of the Examination fee upon request, thereby reversing completeness, per 35 U.S.C. 111(a).104

An alternate view would be to automatically defer examination of current, pending applications until the end of each application’s deferral period, unless the applicant requests that examination be continued on the current status quo track;105 or, in the context of this proposal, defer examination of each application up to five years beyond the effective filing date.

IV. HOW TO CODIFY THE PROPOSED DEFERRAL SYSTEM

A deferred system would be effected by either the USPTO amending its rules, or by Congress amending the U.S. patent statute. Generally speaking, there would be less debate and less delay involved in effecting a deferred system if the USPTO were to amend its rules. However, these amendments would likely be more substantive in nature, as adopting deferred examination will have substantive effects in examination of patent applications. The USPTO typically cannot unilaterally adopt substantive rules, and therefore Congress would have to act by

102 Id. at 17, 22.
103 Id. at 22.
104 Id.
105 Wegner Recommendations at 72.
amending the U.S. patent statute. If this proposal of adopting deferred examination was considered separately from other more controversial patent reform proposals, such as damages and post-grant opposition proceedings, the proposal may pass through Congress with less debate and delay.

The current patent reform bill, also known as the Patent Reform Act of 2009, does not include deferred examination provisions. There are several possible reasons for the lack of deferred examination provisions in the current patent reform bill. The most likely reason is that many of the energies of the current patent reform bill have been focused on other provisions, such as post-grant opposition, damages, and fee setting. Post-grant opposition has been a hot topic in the patent reform proceedings, largely because of the schism it creates being the pharmacy interest groups and the software interest groups. The pharmacy groups generally oppose it, because pharmaceuticals want return on their substantial R&D investments and strong patent protection and predictable results, in the form of issued, unopposed patents.

Another possible reason for the lack of deferred examination provisions in the current patent reform bill is that there are simply more stakeholders in patent law reform than ever before. Twenty years ago, there were fewer Congressional committees, less federal agencies were involved, and more accord was achieved in bills going through; however, today there are

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110 Id.
more trade associations and bar groups, more federal agencies, and more Congressional committees involved in IP matters. Therefore, issues in patent bills are taking longer to be addressed, and, as a result, patent bills are taking longer to pass. A final possible reason for the lack of deferred examination provisions in the current patent reform bill is that historically much IP legislation is only passed at crunch time - in the last couple weeks of the second and final session of Congress. If history holds true, then the patent reform act will likely not pass until the end of calendar year 2010.

Mr. Kaztnelson asserts that no new legislation would be necessary to implement deferred examination, and he instead proposes a creative USPTO rule change on deferring excess-claim, search, and examination fees. He also asserts that the proposed deferral system is within the clear intent and language of the patent statute, and there is no need for Chevron agency deference. More specifically, Mr. Katznelson argues that the USPTO has authority, per 35 U.S.C. §2(b)(2), to adopt a deferral system, and this is supported by the legislative history of 35 U.S.C. §41. This legislative history reveals that Congress specifically authorized the USPTO, per the Consolidated Appropriations Act of 2004, to charge separately for the user fee components. A perfected application requires the fees to be paid, and the conditions of these fees can be set by the USPTO Director, per 35 U.S.C. 111(a)(3).

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112 Katznelson Recommendations at 14.  
113 Id. at 19.  
114 Id.  
115 Id. at 19-20.  
Others feel that the USPTO has no statutory authority for such a change, and Congress would need to debate the issue of deferred examination and amend the patent statute.\textsuperscript{117} However, Mr. Katznelson presents a creative and sound mechanism for implementing deferred examination, via the USPTO amending its rules.

V. PROPOSED DEFERRAL SYSTEM – ADVANTAGES

A. Benefits for the Inventor and Assignees

Such a proposed deferral system would benefit the inventor (applicant) and potential assignees (corporations). Applicants could defer paying fees, thereby saving them money for those applications they no longer decide to pursue. The applicant could cease pursuing prosecution of an application for various reasons, whether due to the invention no longer being commercially viable and/or newly discovered prior art, the invention losing its significance and impact, or any other reason. The applicant is now enabled to defer key patenting decisions until both the application’s technical features and the market opportunity for the invention are reasonably understood.\textsuperscript{118} In other words, an applicant could decide whether to pursue key patenting milestones based on available material data.

Generally speaking across a variety of industries, by the time a patent issues, its claims sometimes are obsolete, and resources can be saved in not examining such obsolete and commercially unviable claims.\textsuperscript{119} Claim obsolescence is especially prevalent in consumer products goods and in generic pharmaceuticals, given their short product lifecycle.\textsuperscript{120} The effect

\textsuperscript{117} Wegner Recommendations at 57.
\textsuperscript{118} Katznelson Recommendations at 8.
\textsuperscript{119} Id. at 2, 5; Eli Lilly Recommendations at 3 (referring to the current backlog and pendency times as “patents issuing on museum-ready inventions”).
\textsuperscript{120} Id. at 6-7.
of the applicant perceiving his claims are obsolete is a review of fewer applications by those patent offices that adopt deferred examination.\textsuperscript{121}

Another advantage for the applicant under a deferred examination system is that the applicant would be able to defer and/or save user fees and prosecution costs.\textsuperscript{122} Law firms and the patent bar may be opposed to deferred examination for this reason, as fewer patent applications would be prosecuted.\textsuperscript{123} But this view is shortsighted: new opportunities will arise for law firms and the patent bar. One such opportunity is in the search reports published and issued to the applicant before examination, as that report will necessitate patent counsel to review the cited art and explain its impact to his clients.\textsuperscript{124} Other opportunities include the need to provide strategic guidance to clients during the deferral period to select the optimum times to initiate the search, examination, and/or abandonment of a case, and to provide guidance on whether to request accelerated examination of a competitor’s deferred application.\textsuperscript{125}

Deferred examination gives inventors the realistic opportunity to craft the intended language and scope of their claims until the appropriate circumstances present themselves, vis-à-vis products being put on the market by the applicant or his competitors.\textsuperscript{126} Some concerns are raised regarding corporations bullying competitors by claiming to have more patents pending.\textsuperscript{127} However, the countervailing consideration is that corporations put forth substantial, long-term R&D investments in their inventions, and so it is also in their interest to perfect such inventions. According to the chief IP counsel of Johnson & Johnson, for example, each of its U.S. patents

\begin{footnotesize}
\textsuperscript{122} Katznelson Recommendations at 8.
\textsuperscript{123} See IBM Recommendations at 7.
\textsuperscript{124} Id.; Eli Lilly Recommendations at 23.
\textsuperscript{125} IBM Recommendations at 7.
\textsuperscript{126} U.S. Chamber of Commerce Recommendations at 20.
\textsuperscript{127} USPTO Restructuring Could Increase Patent Pendency and Harm Quality, June 3, 2002, <http://www.patentlore.com/ptocorner/popa.htm>. This article is by a member of the Patent Office Professional Association, the union of the USPTO patent examiners.
\end{footnotesize}
creates or saves seven and one-half jobs per year. Over the past three years, Johnson & Johnson has invested over $6 million in R&D for each patent application, and a total of $15 million for each issued patent.

Finally, the USPTO can concentrate on applications that applicants consider important, as applicants are in the best position to make such determinations. Many corporations have fixed IP budgets, and may be apt to file more applications if they knew that some of their deferred applications would not be pursued, and thus would not have to incur additional prosecution costs. This is good public policy, as such deferred, abandoned applications that are published could serve as prior art, similar to a previously published, abandoned application available as prior art under 35 U.S.C. 102(a) and 102(b) as of its publication date. Such prior art expands the public’s knowledge base and will defeat new applications that read on this prior art. Additionally, such abandoned applications will help reverse the current reduction in new filings and incoming fees to the USPTO.

**B. Benefits for the USPTO**

Such a proposed deferral system would also benefit the USPTO in terms of reducing its backlog, increasing the capabilities of its workforce, and issuing more valid patents to increase the public’s confidence in the USPTO. As shown in the above USPTO operating statistics in Section I(a) supra, a doubling of examiner force and new applications has still resulted in over a 55 percent increase in backlog, when, theoretically, it should have resulted in no net change in

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129 Id.
130 U.S. Chamber of Commerce Recommendations at 20.
132 In Fiscal Year 2009, USPTO filings are down 1%. See id.
A deferred system will allow the plethora of inexperienced USPTO examiners to obtain more needed technical and legal training before they influence the course of patent applications. Deferring examination of applications for up to five years will relieve the USPTO from examining incoming applications for that time period. This would enable the USPTO to focus on reducing the active application backlog.\textsuperscript{133} Also, there would be a net savings in examination workload, as the USPTO would no longer have to examine claims that the applicant no longer needs, in addition to less processing of continuing applications, such as RCEs.\textsuperscript{134}

A deferred system would take full advantage of PCT search results of material prior art, which would save the USPTO substantial examination time, and increase the overall efficiency of reducing the backlog.\textsuperscript{135} Additionally, deferred examination translates into higher quality examinations because the USPTO would focus its search and examinations on those pending applications that encompass technologies that are of importance\textsuperscript{136}, and examiners have a more complete basis to examine applications. Deferred examination leads to better search reports and more relevant prior art from interested third parties with expertise in that art, to build a workable record of prosecution.\textsuperscript{137} Finally, the USPTO may gain revenues by way of more back-loaded patent maintenance fees, meaning that examination investments are made only on those patents that have a realistic chance of being renewed.\textsuperscript{138} Those who oppose the USPTO adopting deferred examination argue that it results in an unacceptable loss of income, as approximately

\textsuperscript{133}Id.
\textsuperscript{134}Katznelson Recommendations at 8.
\textsuperscript{135}See discussion in supra I(B) and II(A); see U.S. Chamber of Commerce Recommendations at 10.
\textsuperscript{137}See U.S. Chamber of Commerce Recommendations at 20; Katznelson Recommendations at 8.
\textsuperscript{138}Katznelson Recommendations at 8.
one-third of USPTO revenues come from filing fees.\textsuperscript{139} However, deferred examination could result in more application filings, and, therefore, generate greater income.\textsuperscript{140} For example, India adopted deferred examination in 2003 and since then, the number of patent application filings have tripled from 12,000 applications to 36,000 applications.\textsuperscript{141} India’s lower front-end fees have encouraged Indian inventors to apply. In general, adoption of a deferred examination system is justified to increase patent office revenues and reduce its backlogs.\textsuperscript{142}

\textbf{C. Benefits for the Public}

Such a deferred system would also benefit the public. There would be less pendency time because of no patent term adjustment credit.\textsuperscript{143} In addition, there would be less R&D costs, which are ultimately passed on to the consumer, in designing around claims that currently issue under the status quo system.\textsuperscript{144} Delays in knowing the scope of patent claims is one of a handful of potential disadvantages of adopting the deferred examination system, and these disadvantages are discussed below.

\textbf{VI. PROPOSED DEFERRAL SYSTEM – ADDRESSING POTENTIAL DISADVANTAGES}

There are reasons that a deferred examination system has not been adopted at the USPTO. The USPTO has offered an optional, non-adjustable patent term deferred system for non-provisional U.S. applications, per 37 C.F.R. 1.103(d). However, since 2000, only two

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\textsuperscript{139} E.g. Eli Lilly Recommendations at 21, 29.  \\
\textsuperscript{140} Id. at 24.  \\
\textsuperscript{141} Id. at 24-25.  \\
\textsuperscript{143} Id. at 8, 29.  \\
\textsuperscript{144} Id.
\end{flushleft}
hundred applicants have taken advantage of this deferred option.\textsuperscript{145} In other patent offices, such as the JPO, examination fees are deferred and examination is optional; whereas, in the U.S., the fees to commence prosecution must be paid upfront, including an additional $130 processing fee, per 37 CFR 1.17(i), to initiate deferred examination. The JPO also allows applicants to defer paying the request for examination fee for up to one year from filing, which is another step in the right direction for deferral.\textsuperscript{146}

Another shortcoming of the present deferred option is “inertia”: in Japan, the prior art search and examination is already deferred upon submitting the application, and no action is needed to start the deferral; however, in the U.S., applicants need to take additional action to start the deferral.\textsuperscript{147} In the U.S., the application under the deferred option must be ready for publication, per 37 CFR §1.211(c), which involves payments of multiple fees. Moreover, the applicant must choose the number of months to defer examination, per 37 CFR 1.103(d).

Applicants often do not have enough data to make an informed decision on the number of months to defer examination. The only other deferred option in the U.S. is to file a petition under 37 C.F.R. §1.103(a) for “good and sufficient cause” to defer for short periods, and this involves substantially more time and cost for applicants to prepare than merely filing an affirmative request.

There are also concerns that a deferred examination system leads to a lack of notice and unwarranted shift in the scope of claims; unfair shift of burdens in third party, on-demand


examination; increased submarining of patents; and curtails U.S. labor concerns. Each of these concerns is addressed below.

A. Lack of Notice and Claim-Shifting

One concern of adopting the deferred examination system is the lack of notice given to the public of the metes and bounds of the invention. This is a moot argument, given that the status quo system has a more than eighteen month delay in a first action on the merits. Such concerns of notice and late claiming will continue to be addressed under the deferred system via the specification disclosure and claim definitiveness requirements of 35 U.S.C. §112. Additionally, current continuing application practice raises such concerns of notice and late claiming. Those opposing a deferred system should have the burden of proving that there are more harmful net effects of public notice with this proposed deferred examination system. With the status quo, the public notice of issued patents is further delayed over the proposed system because of the greater application pendency of the status quo system.

There is a greater benefit that outweighs any public notice delay in deferred applications: every deferred application causes all later applications to move out of turn ahead in the examination queue, resulting in earlier public notice for these other issued applications. The proposed system also mitigates another public harm under the status quo system: less R&D costs that are ultimately passed on to the consumer. Under the status quo system, innovators have to invest R&D in non-infringing solutions that design around claims which never would have issued under a deferred system, due to intervening prior art and/or the invention no longer

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148 Katzenelson Recommendations at 24.
149 Id. at 25.
150 Id.
151 Id.
152 See id.
being commercially viable.\textsuperscript{153}

Additionally, the specification in such applications would serve to apprise the public of the likely, supportable claims that would be crafted.\textsuperscript{154} The disclosure requirements of 35 U.S.C. §112 paragraph 1 demand this: the specification must describe the function in “full, clear, concise, and exact” terms. Moreover, the claims in such applications would already serve the late claiming concerns, as 35 U.S.C. §112 paragraph 2 demands this: the claims must be “particularly pointing out and distinctly claim the subject matter” of the applicant’s invention. The policy behind this requirement of claim definiteness in 35 U.S.C. §112 is two-fold: to stake the boundaries of the inventor’s property rights, and to provide the public with notice of what is proprietary and what can be exploited.\textsuperscript{155}

Concerns of applicants abusing increased claim scope under a deferred examination system are moot if anyone has legal, intervening rights to practice the patented invention, so long as that party’s practice or preparations took place before the first addition of a claim to cover that embodiment.\textsuperscript{156} In other words, the first user is free from infringing claims added after practice or preparations for such use.\textsuperscript{157} Publishing the applications upon the request of deferral, and a mechanism to force early examination by third parties also address concerns of shifting of claim scope.

Finally, such concerns of notice and late claiming already persist in the current system: that of continuing applications, such as continuation-in-parts and RCEs. Continuation practice already has introduced these harmful effects into patent law, in addition to introducing

\textsuperscript{153} Id.
\textsuperscript{154} See U.S. Chamber of Commerce Recommendations at 20.
\textsuperscript{156} Wegner Recommendations at 54.
\textsuperscript{157} Wegner Recommendations at 83.
substantial delay and uncertainty to competitors.\textsuperscript{158} Continuation practice also depletes USPTO resources until an unduly broad patent issues.\textsuperscript{159} The U.S. Chamber of Commerce has proposed the USPTO to get rid of RCEs, which only prolong examination and create uncertainty on the metes and bounds of an invention, as RCE filings have increased over the past ten years from 8% of total filings to 20%.\textsuperscript{160} Overall, continued applications have increasingly been used in modern USTPO practice, up from 18.9% of applications filed in 1990 to approximately 30% of applications filed in 2006.\textsuperscript{161} The Patent Act has no limits on the number of continued applications that can be filed.\textsuperscript{162} Unlike most other nations’ patent offices, the USPTO allows for unlimited prosecution until twenty years from the filing date.\textsuperscript{163}

The argument of opponents that the proposed deferred system would exacerbate late claiming is moot, given that the status quo allows the same thing via continuing applications.\textsuperscript{164} These continuing applications could go away under this deferred system, as there would be no need to make such claims in chain of continuing applications to keep the docket alive for up to twenty years from the filing date.\textsuperscript{165} The quid pro quo of patents is still preserved under the proposed system: late claiming by the applicant to protect his invention per 35 U.S.C. §120 remains intact, so long as the claims have full 35 U.S.C. §112 support in the original disclosure.\textsuperscript{166}

\textsuperscript{159} \textit{Id.}
\textsuperscript{160} U.S. Chamber of Commerce Recommendations at 5, 24.
\textsuperscript{162} \textit{Id.}
\textsuperscript{163} \textit{Id.} at 543.
\textsuperscript{164} Katznelson Recommendations at 27.
\textsuperscript{165} \textit{Id.}
\textsuperscript{166} \textit{Id.; see supra} note 79.
B. Third-Party, On-Demand Examination Unfairly Shifts Burdens

This deferred examination system would adopt a rule whereby third parties, such as competitors to the applicant, can demand earlier examination by paying a fee.\(^{167}\) Opponents of third party, on-demand examination argue that it is shifting an unfair burden to competitors to pay for starting an examination on somebody else’s application.\(^{168}\) However, third party, on-demand examination merely time-shifts a post-issuance demand – the competitor would pay anyway to challenge an issued patent. Raising such challenges earlier on in prosecution would actually benefit the competitor, as the competitor would bound the scope of the challenge, and such costs would be less now than later due to inflation and an undeniable future increase in time, and therefore fees, for post-issuance challenges. Some may argue that applicants in the current economic recession need issued patents more than ever to raise capital, and so deferred examination would not be in their best interests.\(^{169}\) However, the countervailing consideration is that many companies would rather choose to defer costs and deeper investment in products that may or may not have commercial viability.\(^{170}\)

C. Increased Submarining of Patents

Another potential concern is an increased submarining of patents with a deferred, PCT-like system. However, submarine patenting, a practice that delays issuance of patents to surprise

\(^{167}\) Id. An additional option would be to allow the Director to cancel any official deferral. See Balmer, Normal L., Letter to Director Lehman, December 4, 1998, available at <http://www.ipo.org/AM/Template.cfm?Section=HomeandTEMPLATE=/CM/ContentDisplay.cfmandCONTENTID=3402> (last viewed August 12, 2009).

\(^{168}\) Id.


\(^{170}\) See discussion in \textit{supra} Section V(a).
a mature industry, is a symptom of the status quo continued application system. Submarining is also more an issue of the U.S.’s outdated litigation laws and of patent damages. Current litigation rules fail to deter non-practicing entities (NPEs, also known as “patent trolls”) from filing frivolous suits because NPEs do not face a counter-threat of infringement claims, as they do not make, use, nor sell any allegedly infringing products. Costs to NPEs to plead and file suit are minimal, whereas defendants have to bear a substantially greater cost in answering each element of the NPEs pleading, which oftentimes is a deluge of information relating to development of defendants’ products, customer demand for defendants’ products, etc. Additionally, the standard for assessing damages is vague and risks being excessive relative to the patent’s contribution to a product. Finally, the submarining of secret patents, per 35 U.S.C. §122, would be reduced, as secret submarine patents under these applications are not eligible for deferral; therefore, they move ahead in the exam queue and subsequently publish earlier.

D. U.S. Labor Concerns

One major concern arises with a deferred examination system, namely U.S. labor workforce issues. The current Patent Reform Act of 2009 includes a Search and Examination Functions provision, which forecloses the possibility of work sharing substantive examination of

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173 Id.
174 Id.
175 Id.
176 See discussion in supra Section III(a) and Section III(b); Katznelson Recommendations at 25.
patent applications and prior art searches amongst national patent offices. One reason for this provision could be to preserve national sovereignty, however that is a veiled and less significant reason. The main policy rationale for such a provision is that labor unions are a major stakeholder in Democratic Party politics. Every non-management USPTO employee is represented by one of three unions that want to keep the work here at home: the Patent Office Professional Association (POPA, representing patent examiners), the National Treasury Employees Union (representing trademark examiners), and its separate chapter (representing clerical staff).

The answer here is simple, in addition to removing the above Search and Examination Functions provision in the Patent Reform Act of 2009: don’t allow foreign offices to issue a final grant. Cosmetic solutions, such as providing the examiner one additional hour of substantive examination, will not solve the backlog and pendency issues while satisfying the labor unions. The USPTO recently issued a notice reminding applicants that their selection of certain ISAs with limited competency of the subject matter of the application will result in delays in issuing the ISR. This notice reinforces USPTO’s current stance on not recognizing the

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177 See supra note 38. However, the USPTO may revisit this provision after its Roundtable on work sharing. “Roundtable on Work Sharing to be held November 18”, 74 Fed Reg. 202, available at <http://www.uspto.gov/about/offices/opa/74fr54028.pdf>.
178 See University of Akron School of Law “IP Policy and Politics” Course - Class Discussion on Assigned Readings. March 16, 2009
179 Id.
180 Id.
181 See discussion in supra II(A); 2009 University of Akron IP Symposium, Harold Wegner, panelist on “Impact of Obama Administration on IP Policy” Panel Discussion.
182 Todd Dickinson, at the 2009 University of Akron IP Symposium, proposed that examiners be provided an additional hour for each application to substantively examine it. 2009 University of Akron IP Symposium, Todd Dickinson, panelist on “Impact of Obama Administration on IP Policy” Panel Discussion. Harold Wenger, a peer panelist at the Symposium, argued that an additional hour is essentially a churning, recurring, and never solved problem, as approximately one-third of applications filed are continuing applications.

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efforts of particular ISAs, and runs counter to worldwide harmonization and patent work sharing efforts.

U.S. labor concerns need to be balanced by worldly considerations. First, many other patent offices, whose nations are trading partners with the U.S., offer either deferred examination or some form of a delayed examination process.\textsuperscript{184} Such nations include Argentina, Australia, Canada, China, EPO, Germany, India, JPO, Korea, Romania, Russia, and Thailand.\textsuperscript{185} Second, despite the U.S.’s artificial labor stances, worldviews and approaches to solving problems are naturally gravitating towards a PCT-like, deferred practice. As pointed out in one of the recent hearings on patent reform, the nature of innovation has changed to the point where “interconnected technologies have created an environment that allows groups of people to innovate together across enterprises and national boundaries.”\textsuperscript{186} Products entering the market that satisfy consumer demands are becoming more complex.\textsuperscript{187} This market force has increasingly led to contributions from more than a single inventor and involves the licensing of on the order of hundreds of patented inventions – a term dubbed “collaborative innovation.”\textsuperscript{188} This reflects an even greater need to vet out prior art and perfect an invention before patent issuance. Nowadays, this perfection of invention involves more interdisciplinary approaches and backgrounds to solve these increasingly complex issues. Translated to each of the international patent offices, this collaborative innovation would involve interdisciplinary work sharing to harmonize the worldwide patent law practice.

\textsuperscript{184} Eli Lilly Recommendations at 5.
\textsuperscript{185} Id. at 65-66.
\textsuperscript{187} Id.
\textsuperscript{188} Id.
E. Other, Miscellaneous Concerns

Other potential concerns in adopting such a deferred system in the U.S.: increase in patent litigation (already an increased investment and stake by applicant and/or competitor of associated product); no quantitative research that deferred examination correlates to patent quality; an increase in amount of patent applications due to lower front-end fees which encourages inventors to apply; and more applicants may forego performing their own prior art search prior to submission of the application.\(^{189}\)

However, some of these potential concerns have not been fully vetted. For example, U.S. applicants currently are not required to perform their own prior art search when applying for a U.S. patent. Regarding the potential increase in litigation for adopting a deferred system, Roundtable participant Ken Patel, IP Counsel for Procter and Gamble, shared that Procter and Gamble’s experience with deferred examination in Japan was not positive. This was due to an increase in infringement actions on such deferred examination patented-products that were on the Japanese market for five-plus years.\(^{190}\) However, early (i.e. standard eighteen months from date of request) publication of deferred applications and enforcing the written description and enablement requirements, per 35 U.S.C. §112, should address the lack of notice and shifting of claim scope concern because the specification in such deferred applications would serve to apprise the public of the likely, supportable claims that would be crafted.\(^{191}\) Increasing the maintenance fees (higher back-ended fees) with a deferred examination procedure (lower front-end...

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\(^{189}\) See U.S. Chamber of Commerce Recommendations at 21.


\(^{191}\) See discussion in supra Section VI(A); Patently-O Bits and Bytes No. 44: Deferred Examination, available at <http://www.patentlyo.com/patent/2008/06/patently-o-bi-5.html> (last viewed August 12, 2009).
end fees) would curtail the submarining of patents by NPEs, because such a fee structure would result in many applications having low commercial value being abandoned.192

Others have questioned whether the evidence suggests that deferred examination alone solves a patent office’s pendency and backlog issues. The USPTO, with an average pendency time amongst all art units of 32 months, does not have deferred examination.193 The EPO and JPO, patent offices that have deferred examination, have average pendency times amongst all art units of 44 and 32 months, respectively.194 The Canadian patent office, which has deferred examination, has an average pendency time amongst its art units between 20 (mechanical) and 33 (electrical and biotech) months.195 These numbers suggest that patent offices worldwide – with and without deferred examination - are struggling with their own backlog and pendency issues.196 However, when examining the operating statistics in greater detail, international offices that have adopted deferred examination have shown convincing results.

VII. INTERNATIONAL PATENT OFFICES HAVE POSITIVE EXPERIENCES WITH DEFERRED EXAMINATION

The EPO, with an eighteen to twenty-four month deferral system, went from approximately eleven claims in an application in 1988 to seventeen in 1999 with a stable 90% examination rate (10% application dropout rate).197 Examination rate is the percentage of applications that are ultimately examined, after taking into consideration the claims being

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192 See Wegner Recommendations at 55.
193 Supra note 7.
194 Eli Lilly Recommendations at 9.
195 Id.
196 Id. at 10.
narrowed, original claims being withdrawn, and abandonment of applications that occur due to
the prior art search report.198

The JPO originally had a seven year deferral system, and went from approximately three
claims in an application in 1988 to seven in 1999: this resulted in a 15% increase in examination
rate, from 45% to 60% (to 40% application dropout rate).199 Today, the JPO has a three year
deferral system, with approximately eight claims per application at approximately a 70%
examination rate (30% application dropout rate).200 When the JPO transitioned from a seven to a
three year deferral system in 2005, the number of filings went down from 427,000 in 2005 to
396,000 in 2007, yet the rate of examination requests stayed steady at 95% of total filings201; and
from 2000 to 2007, there were over 40,000 less filings, as only 60% of filings had examination
requests; however, over 100,000 more examination requests took place in that same time period
as 95% of filings had examination requests.202 These statistics are evidence that a deferred
examination system more efficiently solves a major patent office’s backlog.

Additional international experiences show how powerful the search report is in the
applicant visualizing how the prior art impacts patentability of the claims. The search report
leads to substantial abandonment prior to examination across a wide variety of technology
clusters: in the EPO, there was a two to eight percent abandonment rate pre-search report, and
this rises to between nine and fifteen percent post-search report.203 Given this abandonment rate,
there are projections of a claim dropout rate of twenty percent at the USPTO, which would
adequately compensate for the USPTO backlog.204

198 Katznelson Recommendations at 10.
199 Id.
200 Id.; Eli Lilly Recommendations at 6.
201 Wegner Recommendations at 91.
202 Id.
203 Katznelson Recommendations at 11-12.
204 Id. at 14.
VIII. CONCLUSION

The President of POPA argued that the recent hiring surges need more time to take effect before the USPTO adopts deferred examination.\(^{205}\) However, sufficient time has been given, and the hiring surges have not solved the problem.\(^{206}\) In addition, the USPTO currently has a hiring freeze\(^ {207}\), therefore the surge movement has stopped, at least in the near term. “Progress should be made in harmonizing the U.S., European, and Japanese patent-examination systems to reduce public and private transaction costs, and to facilitate trade, investment, and innovation.”\(^ {208}\) This progress – coupled with solving the USPTO’s backlog and pendency problems – will not be achieved by merely throwing resources at the problem in increasing the USPTO budget and workforce.

The USPTO has made a commitment to patent work sharing via the Jeju Declaration, but, in order to have patent work sharing with optimum, tangible results, the USPTO needs to adopt deferred examination as part of its nominal practice.\(^ {209}\) If the USPTO were to implement a deferred examination practice in a manner similar to the proposed deferral system presented in this paper, progress can be achieved in reducing transaction costs, facilitating innovation and trade, and harmonizing our patent laws with the world.\(^ {210}\) Additionally, a deferred system would enhance the technical and legal capabilities of the USPTO examiner corps while substantially

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\(^{206}\) See generally Wegner Recommendations.

\(^{207}\) See University of Akron School of Law “IP Policy and Politics” Course – presentation by Andrew Hirshfeld, Acting Deputy Commissioner for Patent Examination Policy, March 17, 2009.


\(^{209}\) Wegner Recommendations at i.

\(^{210}\) Other patent offices, such as the Japanese Patent Office, and Canadian Patent Office, enable applicants to defer examination up to three years from the date of filing. See PTO to Consider Deferred Examination, <http://inventivestep.net/2009/01/29/pto-to-consider-deferred-examination/> (last visited August 12, 2009).
saving USPTO resources; increase the quality of issued patents; increase the public’s confidence in our patent system; directly and positively address the backlog and pendency issues; and provide applicants and assignees with the opportunity to defer costs and perfect their inventions. The potential concerns of lack of notice, submarining of patents, shifting the cost burden to patent challengers, and U.S. labor issues are either directly addressed with the proposed deferred examination system or are more directly related to other issues such as damages and outdated litigation laws.

Flexible deferral of examination, at no more than five years, will allow more previously undiscovered prior art from the date of filing to become available to examiners over time, and applicants can decide which applications are important, and the USPTO can focus on those most important pending applications.\textsuperscript{211}

\textsuperscript{211} IBM Recommendations at 1.