Bi-Level Technologies

From the SelectedWorks of Ron D. Katzenelson

February 23, 2012

Brief Comments on the USPTO’s User Fee Proposal

Ron D Katzenelson
Brief Comments on the US Patent & Trademark Office’s User Fee Proposal

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Sunnyvale, February 23, 2012
Content

- Fee-setting proceeding is of unprecedented scope and responsibility for PTO and PPAC
- Public patent policy factors of fee apportionment are beyond PTO’s economic expertise, nor institutional role – it must tread cautiously
- PPAC is entrusted with advisory responsibility to provide substantive and meaningful comments on balancing factors for which PTO lacks expertise
- “Front-end” vs. “Back-end” fees policies – resolving the PTO’s fundamental administrative convenience conflict with public patent and innovation policies
PTO is given an unprecedented opportunity

- The PTO had committed to propose a fee schedule “developed with a rigorous and transparent review process.” -- FY 2013 USPTO Budget Request.

- The PPAC must report only when it has sufficient information to provide meaningful comment.

- Unfortunately, the PTO has not yet disclosed critical information required for making informed comments.
Essential policy aspects of patent fee-setting are outside of PTO’s institutional role and expertise – requiring tight safeguards and external support

➤ The PTO has neither the economic expertise, mandate, nor institutional ability to
  • be a neutral disinterested policy-balancer, to set fees at an economically efficient level because it has prima facie conflict and a direct administrative stake in the outcome;
  • determine the fraction of fees to be collected at the “front-end” as opposed to “back-end” renewal fees; and to
  • model and project patent application attributes (size, claims, continuations) necessary to achieve patent protection

➤ The PPAC must provide advice to fill that void

➤ But PTO must disclose sufficient information and provide a Regulatory Impact Analysis for public comment
PTO lacks information required to determine the optimal share of fees to be collected at the “front-end” and must therefore stick to original congressional intent.

- Under previous statutes, PTO must collect only half of the patent fees at the “front-end” (before patent grant). This
  - enables applicants to defer patenting costs until they achieve commercial success – supports startups.
  - provides low cost opportunity for discovering inventions that are worth investing in. Casts a wide prospecting net on many more innovations.
  - fosters more disclosure – even from ultimately unsuccessful applicants.
  - provides stronger incentives for early termination of useless patents – reduces IP barriers for others.

- PTO provided no data that permits analysis of the impact of its rules on these factors. It must strive to restore the 50% share intended in PL 96-517 and PL 97-247, an apportionment balance that was later upset by PTO’s increased pendency.
Congress’ intent in P.L. 97-247 (1982) in establishing maintenance fees was to ease “front-end” applicants’ burdens – a central theme in this historic law

- Established a maintenance fee structure
  - *Set goal of 50% for revenues from maintenance fees.*
- Provided 50% fee reduction for small-entities
- Liberalized rules to remove barriers and increase incentive to file patent applications
  - awarding a filing date to applications submitted with missing parts
  - deeming any paper to be considered filed in the PTO when it is deposited in the U.S. mail
  - ability to correct inventorship in an application
  - Provided for automatic extensions of time
  - revival of unintentionally abandoned applications
PTO proposes to increase front-end fees’ share even more, deviating further from original Congressional intent.

Historical maintenance revenues share

Goal set by Congress in P.L. 96-517 & P.L. 97-247

USPTO Projection - Proposed Fee Rule

Source: USPTO Annual Reports, patent fee revenue breakdown pie charts
PTO’s Proposal will unduly suppress opportunities to protect new inventions

Share of patent fee revenue

- Green: Maintenance
- Red: Issue and PG Pub
- Blue: Filing, processing, and appeal

FY 2010:
- Maintenance: 30.8%
- Issue and PG Pub: 33.6%
- Filing, processing, and appeal: 35.6%

FY 2014:
- Maintenance: 27.8%
- Issue and PG Pub: 27.8%
- Filing, processing, and appeal: 44.4%

FY 2015:
- Maintenance: 28.9%
- Issue and PG Pub: 29.0%
- Filing, processing, and appeal: 42.1%

USPTO PROPOSED FEES, Feb 7, 2012
Full term patent maintenance fee share comparison

U.S. Patent Office record of attempting to control applicants’ behavior by fees, limiting patent rights

- *Annual Report of the Commissioner of Patents, 3, (1928)* (Of surcharge fee in excess claims: “The object of this [surcharge fee] was not to bring in revenue but *to decrease the unnecessarily large number* of claims filed with applications.”)

- *Annual Report of the Commissioner of Patents, 5 (1965)* (Study initiated to consider changes in the Rules of Practice *to limit* “the length of patent specifications and the number and nature of patent claims.”)

- *63 Fed. Reg. 53497, 53507* (Oct. 5, 1998) (“this problem [of] applications containing an excessive number of claims has been exacerbated by the advent of word-processing equipment, ….it is now time for the PTO to act *to limit* the use of excessive numbers of claims in an application.”)

- *USPTO 21st Century Strategic Plan, fee proposal* (June 2002) (Fees "based on highly progressive system *aimed at strictly limiting* applications containing very high number of claims.“)
U.S. Patent Office record of attempting to control applicants’ behavior, limiting patent rights (Contd.)

- **USPTO Information Collection Request in support of Claims and Continuation limitation Rules, Supporting Statement at 2, 200512-0651-002 (Dec. 22, 2005)** (“A small but significant minority of patent applications [ ] contain an excessive number of claims.” … “a small minority of applicants has misused these practices by filing multiple continuing applications and requests for continuing examination in order to delay the conclusion of examination.”)

- **71 Fed. Reg. 48, 49 (Jan. 3, 2006)** (“it is now appropriate for the Office to clarify the applicant’s duty … by placing some restrictions on the filing of multiple continuing applications”)

- **71 Fed. Reg. 61, 62 (Jan. 3, 2006)**, (“The Office is now proposing changes to its practice for examination of claims …[that] does share with an applicant who presents more than a sufficiently limited number of claims for simultaneous examination the burden so imposed.”)

PTO has failed to properly consider the impact of its fee rules

- PTO states that “economic data guides fee structure design and is used to calculate elasticity of demand associated with fee changes.”
  • However, this was used only for PTO revenue projections – not for assessing adverse effects on applicants’ loss of patent protection

- PTO’s (unsupported) elasticity projections indicate that its new fees will suppress
  • application filings by 4%
  • applications’ size by 4%
  • RCE filings by 8%
  • filings of independent claims in excess of 3 by 25%
  • filings of total claims in excess of 20 by 25%

- With this huge loss of patent assets and protection, what is then the economic impact on innovation and on inventors? On economic growth?

- No evidence that PTO evaluated such impact, let alone balance it against other factors
- Without such analysis, how did the PTO balance the factors that determine the proper ratio of “front-end” fees vs. “back-end” fees?
PTO is ill-equipped to determine what constitutes an “excessive” number of claims

- USPTO’s expertise is limited to *patentability analysis* – not infringement analysis
- Applicants draft multiple claims to cover *infringing* products
- Due to claim-scope erosion, weakening of the doctrine of equivalence and increasing technology complexity, a larger number of claims are *required* for appropriating equivalent returns from inventions – an economic trend which the PTO is ill-equipped to analyze.
PTO is ill-equipped to determine what constitutes an “excessive” number of claims (Contd.)

- Dramatic rise over two decades in the fraction of applications having large number of claims
- Due to claim-scope erosion, weakening of the doctrine of equivalence and increasing technology complexity, a larger number of claims are required for appropriating equivalent returns from inventions – an economic trend which the PTO is ill-equipped to analyze.
What would the disproportional impact of claim fees on certain industries be due to the losses in claims?

Small Entities' Total Claims Distribution in Applications
By Technology Area (FY 2006)

Note: This data excludes applications with more than 10 independent claims.
Source: USPTO A04757
What would the disproportional impact on small entities be due to the losses in claims?

Probability distribution for number of claims in applications by entity type

Pr (# Claims > X )

Total number of claims
Number of independent claims

Source: USPTO data for FY 2006
What would the disproportional impact on certain industries be due to the losses in RCE’s and Continuations?

- The Continuations and Claims Rules Déjà vu

<table>
<thead>
<tr>
<th>USPTO Technology Center</th>
<th>Technology Area</th>
<th>% of Applications Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Claims Rule</td>
</tr>
<tr>
<td>1600</td>
<td>Biotechnology and Organic Chemistry</td>
<td>40%</td>
</tr>
<tr>
<td>1700</td>
<td>Chemical and Materials Engineering</td>
<td>24%</td>
</tr>
<tr>
<td>2100</td>
<td>Computer Architecture, Software, and Information Security</td>
<td>29%</td>
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<tr>
<td>2600</td>
<td>Communications</td>
<td>26%</td>
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<tr>
<td>2800</td>
<td>Semiconductors, Electrical and Optical Systems and Components</td>
<td>19%</td>
</tr>
<tr>
<td>3600</td>
<td>Transportation, Construction, Electronic Commerce, Agriculture</td>
<td>18%</td>
</tr>
<tr>
<td>3700</td>
<td>Mechanical Engineering, Manufacturing, Products</td>
<td>21%</td>
</tr>
<tr>
<td>All UPR</td>
<td>All Areas</td>
<td>24%</td>
</tr>
</tbody>
</table>

PTO must disclose its data sources and analysis methods

Example: it asserts 0 elasticity on appeals, when actual evidence shows otherwise:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Appeal Revenue/Number of Final Rejections ($)</th>
</tr>
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<tbody>
<tr>
<td>1979</td>
<td>20</td>
</tr>
<tr>
<td>1980</td>
<td>30</td>
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<td>1981</td>
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<td>1984</td>
<td>40</td>
</tr>
<tr>
<td>1985</td>
<td>50</td>
</tr>
</tbody>
</table>

Data Source: USPTO Annual Reports

PL 97-247 (1982, effective FY 1983) increased appeal fees by a factor of 2.3

Normalized Appeal fee revenues increased only by a factor of 1.83

Elasticity of 21%
CONCLUSIONS

- PTO should provide more information to enable meaningful informed public comments on its fee proposal.

- PPAC should report after the PTO discloses its Regulatory Impact Analysis required under EO 12866 and OMB Circular A4 for “economically significant rule” such as this.
  
  • Consider alternatives such as increasing “back-end” ratio – restoring Congress’ original intent
  
  • Recover claim complexity costs via claim-based maintenance fees – not only in the “front-end.”