

Patent Public Advisory Committee

# Fee Setting Report

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PATENT AND TRADEMARK OFFICE



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## Background

The USPTO is entirely funded by fees collected from its users and does not rely on the federal government's tax revenues. In the Leahy-Smith America Invents Act of 2011 (AIA), the USPTO was granted the authority to set its own fees, but only after following a structured process of collecting and considering public input. Following a biennial fee review conducted within the agency, the USPTO sent a fee adjustment proposal to the PPAC on August 8, 2018. As provided by the statute, the PPAC held a public hearing on September 6, 2018 at the USPTO in Alexandria, Virginia and collected public input both at the hearing and in the form of written submissions. This PPAC/USPTO Fee Setting Report reflects the PPAC's views after considering the written submissions and hearing testimony. After considering this Report, the USPTO will issue a Notice of Proposed Rule Making (NPRM) including a fee proposal incorporating any revisions made to reflect the PPAC's input. After collecting and considering further public reaction to the NPRM, the USPTO will issue a Final Rule specifying adjusted fees. It is currently expected that the new fees will go into effect in early 2021.

The fee adjustment includes targeted adjustments to issue and maintenance fees, PTAB fees, significant increases to accelerated design patent examination fees, and surcharges for late payment of maintenance fees. There are also new fees assessed on practitioners to maintain registration with the USPTO, to appear *pro hac vice* before the PTAB, and for filing non-provisional applications in a format other than DOCX. Other fees are being raised by 5% across the board.

## Criteria for Analyzing the Fee Adjustment Proposal

In preparing its recommendation on the USPTO's fee adjustment proposal, the PPAC has considered the appropriateness of both the aggregate proposed fee increase and the individual fee increases.<sup>1</sup> Assessing the aggregate proposed increase involves considering the USPTO's overall needs to fulfill its mission of supporting the country's innovation system in the coming years, while maintaining a robust operating reserve. Fulfilling Director Iancu's plan to achieve reliability and certainty in the patent system will require continued improvements in the examination process. The IT system must be renewed to assure its operational reliability but also will require improvements to give Examiners the tools that they need to improve patent quality. Also, given the three years that will have passed between the implementation of the fee increase in January 2018 and the projected implementation of the one envisioned in the current proposal, the USPTO will naturally look for revenue to address expected cost increases over that period.

Whether the aggregate fee increase makes sense depends on whether the USPTO's services provide the right amount of value to the country, whether it is prioritizing the right expenditures to fulfil its mission, and whether it is operating efficiently. It is also appropriate to consider the life cycle costs of getting and maintaining a patent and evaluating the incentive effects on applicants. Will worthwhile inventions continue to be protected? Also, will filings be discouraged to the extent that revenue expectations are not met?

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<sup>1</sup> One received comment ([https://www.uspto.gov/sites/default/files/documents/David\\_Boundy.pdf](https://www.uspto.gov/sites/default/files/documents/David_Boundy.pdf)) has challenged the USPTO'S authority under the statute to conduct the fee setting process at this time. The PPAC does not see rendering legal advice and analysis as part of its role in the fee setting process and recommends that this comment be addressed by the USPTO directly.

Increases proposed for individual fees as well as newly introduced fees can be judged on the basis of fairness, their effect on applicant behavior, and whether they are in fact likely to raise the expected revenue. However, if the proposed aggregate increase is deemed to be beneficial, criticism of individual fee increases inherently implies that other fees should be raised to compensate.

## Aggregate Fee Increase

The PPAC supports the USPTO in seeking the revenues it needs to increase the reliability and certainty of patent rights, provide timely examination, improve and secure its IT infrastructure and adequately fund its operating reserve. In its Annual Report, the PPAC provides specific recommendations regarding IT, examination quality and pendency, as well as the operating reserve. As a general matter, we believe that increased revenue for the USPTO will be important to fulfill its Strategic Plan and implement the recommendations of the PPAC.

Some commenters expressed concern about the value provided by patent examination given the vulnerability of patents being challenged in the post-grant proceedings provided by the AIA. To address stakeholder concerns about the survivability of patent rights in post-grant proceedings and litigation, the USPTO should explain how additional revenue will be used to enhance patent quality through improved search and examination. The USPTO should also be clear as to how it will use revenues to modernize its IT infrastructure to increase its stability and scalability, and to strengthen security, as well as to support more effective examination processes.

## Issue and Maintenance Fee Increase and Front Loading

The PPAC supports these fee increases and appreciates the rationale for weighting the increases toward the issue fee and first stage maintenance fee. Funding for the examination work of today should not be overly dependent on whether or not patent owners decide to maintain patents at later stages. Indeed, one of the comments expressed the view that fee increases should be weighted more toward the front end of the patenting process (i.e., filing, search, and examination) and away from the back end of the patenting process (i.e., issue and maintenance fees). The current proposal envisions preserving the current weighting between front end and back end.

In FY 2017, patent maintenance fees represented 44% of total patent fee collections, a percentage that is expected to increase in the coming years due to an increasing number of patents subject to maintenance fee payments. First stage maintenance fees were 29% of total maintenance fees in FY 2017 and are expected to decline in the coming years. The proposed fee increase would largely restore the percentage of maintenance fees that are attributable to the first stage. The USPTO should carefully review, particularly, the first stage maintenance fees for elasticity concerns to assure that revenue expectations will be met without unduly encouraging the non-maintenance of otherwise viable patent rights.

## Post-Grant Proceedings

The PPAC supports the increases to the fees in post-grant proceedings. Fees for the PGR, IPR and CBM proceedings must, by statute, be reasonable, which is defined as taking into account the cost of conducting these proceedings. It is important that these proceedings receive the care necessary to assure fairness and transparency to petitioners and patent owners. The PPAC also recognizes and appreciates the impact of the *SAS Institute v. Iancu* and *Aqua Products v. Matal* decisions on the workload of the PTAB and the additional resources that will be required to manage the increased workload. The PPAC encourages the PTAB to conduct data collection and analysis on the impact of

these decisions on its processes and share the results with the stakeholders so that they can better appreciate the need for increased fees.

The PPAC also supports the new fee for *pro hac vice* admissions. It makes sense to recover the costs of processing these petitions from those in need of *pro hac vice* admission rather than from overall trial fees.

## **Non-DOCX Filing Surcharge**

The PPAC supports the surcharge on non-DOCx filings. Although some comments were skeptical of the surcharge and the preference for DOCx, this format is readily available and a reasonable choice for a standard filing format. The USPTO should have the flexibility to incentivize applicants to use filing formats that maximize efficiency for both the USPTO and its stakeholders.

## **Fee for Late Maintenance Fee Payments**

The PPAC believes that the magnitude of increase of the surcharge for late maintenance fee payments may be excessive. The rationale that such fees are consistent with international practice is understood. However, such a large surcharge is not justified by extra expense on the part of the USPTO. The PPAC agrees that it is desirable to have timely payment of maintenance fees to make clear to the public when patent rights will be extended and therefore agrees with a meaningful incentive to encourage timely payment. But as long as extensions of time are available, the public cannot rely on the expiration of a patent for which the maintenance fee is overdue, until the period for which an extension is available has expired.

If the goal is to discourage late payments, then perhaps the USPTO should provide services to individuals and small businesses to make it simple to stay current on deadlines and pay in a timely fashion. For example, the USPTO could provide a reminder system for small and micro entities with easy to use invoicing and payment.

## **Requests for Expedited Examination of Design Patent Applications**

The PPAC cannot support the full increase in the fee for expedited examination of a design application, without sufficient justification for such a large increase. Design examination costs are generally understood to be lower than utility examination costs, which creates doubts among stakeholders about how such a large increase can be justified.

## **Annual Active Patent Practitioner Fee**

The proposed practitioner fee attracted numerous, largely critical, comments. In principle, the PPAC supports an annual practitioner fee but requests further information from the USPTO about how the anticipated fee collections will offset the cost of operations of the OED and to what extent. At this time, there is not sufficient clarity as to the procedures for collection of the fee, the penalties for late payment of the fee and the ability of the Director to reinstate a practitioner who has paid the fee late. The PPAC needs more information to ensure that the new fee is reasonable and imposed in a manner that is easy to pay and for which late payment can be excused.

The PPAC supports the annual registration fee in order to make certain that the roll of registered practitioners is up-to-date and to help defray the cost of operating the OED. Many practitioners are not aware that they must notify the OED of address changes. The surveys conducted by the OED have not proven effective in this regard. The user community relies on the listing of active registrants on the

USPTO's website as a reliable source of registered patent prosecution practitioners and PTAB counsel to assist them before the USPTO. The OED currently is funded by a mix of patent and trademark fees. The annual registration fee would better align the costs with those who receive the benefits of the services that OED provides.

Those practitioners who are also lawyers are aware of the annual dues requirements for their state bars and the OED fees would not create an unreasonable burden. The goals of OED are to protect the public and to protect the integrity of the profession. The USPTO is recommending a change that is consistent with the fees charged by the many state bars to ensure the same goals. However, those practitioners who are agents rather than attorneys may be more burdened by the new fees. The USPTO should consider whether lower fees are warranted for agents.

## **CLE Discount**

The PPAC supports the goal of improving the services provided by the patent bar to the public. However, it is not clear whether encouraging CLE will in fact bring about this desired result. More information supporting the effectiveness of such a CLE incentive would be helpful. Also, there are reasonable questions left to be answered as to what kind of content and providers would be deemed qualified to deliver the CLE. Providing effective services as a member of the patent bar requires both technical and legal knowledge. Would technical seminars qualify as continuing education for patent practitioners?

It is worth considering whether non-lawyer patent agents should be required to take CLE to obtain the discount given that they are not otherwise subject to a CLE requirement by state bars and cannot give legal advice in any event.

## **Conclusion**

To support its role in the country's innovation system, the USPTO requires adequate funding. Timely, high quality search and examination require an appropriately compensated work force supported by state of the art and reliable IT infrastructure. Achieving reliability and certainty in patent rights is not cheap. But the consequences of having the USPTO issue patent rights that cannot be relied upon may be even more expensive. The expectations of patent owners are frustrated, innovation is hindered by uncertainty about which patents are in fact valid and should be either licensed or avoided, and unnecessary litigation consumes resources.

The USPTO has not yet presented an aggregate expected revenue increase for the fee proposal. However, consistent with the USPTO's Strategic Plan and the PPAC's own recommendations as set out in the PPAC's FY 2018 Report, the fee adjustment proposal does not seem excessive in the aggregate. Between the previous fee increase implemented in 2018 and the new one envisioned for early 2021, there will have been several years of cost increases. The PPAC is recommending a significant boost in the operating reserve for patents to assure robustness in the face of fluctuations in revenue or interruptions in appropriation authorization. The PPAC is also highlighting the need to assess and improve the quality of patent search. The recent outage highlighted the urgency and imperativeness of renewing IT systems to bring their reliability to acceptable levels to meet stakeholder needs. Further improvements are needed to support search and examination. The search capability provided to examiners today does not match what is available to some of their international peers and is insufficient to support Director Iancu's objective of reliable and certain patent rights. The case for fee increases would be further bolstered with explanations of how additional revenue will support desired improvements.

As noted above, the PPAC has criticized some individual fee increases and asked for further information about others. It is believed that the criticized fees account for a relatively small portion of the additional revenue that would be garnered by the overall proposal. An alternative would be selective further increases to filing and examination fees or maintenance fees to achieve the same projected revenue increase.

The PPAC views the biennial fee review process as successful in providing the USPTO the autonomy it needs to set its own fees, while importantly considering input from the public. The USPTO is in the best position to assess its own needs and balance the tradeoffs in setting individual fees. The PPAC is pleased that the fee setting authority provided by the AIA has now been extended until September 2026 by the SUCCESS Act (*pending Presidential signature*).

The PPAC notes with appreciation the efforts of the USPTO staff in conducting the biennial fee review and developing the fee proposal that we have reviewed. The PPAC also thanks all of those in the public who submitted comments and participated in the hearing on September 6th. We hope that the end result will be a fee structure that addresses the user community's concerns as well as expectations regarding the USPTO's operability and functionality including remedying the shortcomings in the USPTO's IT systems and providing the capabilities that the USPTO needs to fulfill its goal of reliable and certain patent rights.