



2 December 2016

The Honorable Michelle K. Lee
Under Secretary of Commerce for Intellectual Property &
Director of the United States Patent and Trademark Office
Mail Stop CFO
P.O. Box 1450
Alexandria, Virginia 22313-1450

via email: fee.setting@uspto.gov

Re: Setting and Adjusting Patent Fees During Fiscal Year 2017

Dear Director Lee:

Intellectual Property Owners Association (IPO) submits the following comments and suggestions in response to the United States Patent and Trademark Office’s notice of proposed rulemaking entitled “Setting and Adjusting Patent Fees During Fiscal Year 2017,” published in 81 Fed. Reg. 68150 (Oct. 3, 2016) (FRN).

IPO is an international trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO’s membership includes about 200 companies and more than 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members. IPO membership spans more than 50 countries. IPO advocates for effective and affordable IP ownership rights and provides a wide array of services to members, including supporting member interests relating to legislative and international issues; analyzing current intellectual property issues; information and educational services; and disseminating information to the general public on the importance of intellectual property rights.

We appreciate the USPTO’s effort to allow stakeholders to provide feedback on how the USPTO should set fees in Fiscal Year 2017. In these comments, IPO addresses many of the key fee issues for patent applicants. We hope the USPTO will consider how the proposed fee changes will affect patent applicants and owners.

As an initial matter, we applaud the USPTO for not suggesting an increase in the excess claim fees or in maintenance fees.

Sequence Listing Fees – Mega Sequence Listings

The proposed fee schedule includes new fees for “Mega-Sequence Listings” for listings greater than 300MB. We believe that the USPTO has not provided adequate justification for these fees and urge the USPTO to consider alternatives outlined below.

In comments submitted on 24 November 2015 in response to the Patent Public Advisory Committee Public Hearing on the Proposed Patent Fee Schedule (80 Fed. Reg. 63543), we

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asked the Office to provide historical cost information before imposing new fees. The current FRN acknowledges that actual cost data associated with Mega-Sequence Listings is not available, but states that “[t]he level of effort associated with the handling of extremely lengthy sequence listings...is significant because the Office’s systems require extra storage and special handling for sequence listing files beyond 300 Megabytes (MB).” We recognize that extra effort may be required to process Mega-Sequence Listings but ask the Office to provide actual cost information before imposing such high fees.

Although the purpose of the proposed new fees seems to be to discourage applicants from submitting Mega-Sequence Listings, the FRN states that “less than 10 applications per year contained sequence data that reached the 300 MB file levels of the proposed new fees” which indicates that applicants already are minimizing these submissions. The USPTO might be assuming that affected applicants can avoid disclosing mega-sequences in their applications to avoid the fees. The FRN suggests that when published sequences are “not essential material” they can be described “by name and a publication or accession reference.” However, determining what constitutes “essential material” is not always clear-cut. Many applications are written for international prosecution, and other patents offices have different rules about the information that must be set forth in an application and what can be described by reference to a publication.

Instead of imposing new fees, we suggest that the USPTO consider revising the Sequence Listing rules (37 C.F.R. §§ 1.821-1.825) to exclude sequences that are not pertinent to an examiner’s ability to search and examine the claimed subject matter, such as when admittedly prior art sequences are disclosed or when sequences are disclosed to illustrate “the manipulation of sequence data rather than the substance of the sequences themselves.” Alternatively, the Office could allow applicants to seek a waiver of the Sequence Listing rules when compliance would require submission of Mega-Sequence Listings that are not essential material. Such a waiver could protect applicants from the dire consequences of failure to disclose sequences that might be determined to be essential material and save the USPTO from processing Mega-Sequence Listings when such sequences are not pertinent to examination of the claimed subject matter.

Sequence Listing Fees – PCT Sequence Listings

The proposed fee schedule includes a new fee for the “late” submission of a Sequence Listing in a PCT application. The FRN does not provide historic costs for processing “late” Sequence Listings, noting that the new fee is permitted under the PCT rules and is “similar in nature and proposed fee rate to fees charged by other international IP offices.” Although we still believe the USPTO should provide a cost-based justification for this fee, we support the USPTO’s goal of “encourage[ing] timely filing of sequence listings in international applications,” to facilitate timely preparation of the International Search Report and International Preliminary Report on Patentability.

Appeal Fees

The proposed fee schedule increases the Notice of Appeal fee and Appeal Forwarding fee by 25% each. These increases are too high for a number of reasons. We urge the USPTO to adopt more moderate increases or an alternative fee schedule as outlined below.

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The historical cost information provided in the Detailed Appendix Slides published with the Patent Public Advisory Committee Public Hearing on the Proposed Patent Fee Schedule (80 Fed. Reg. 63543) reported that historical costs associated with a Notice of Appeal are only \$33. The current FRN states that the current Ex Parte Appeal fees cover 58% of costs, and that the proposed fees will cover 72% of costs. The FRN states that the increased appeal fees will “better align fees to costs” and support “continued improvements to pendency and inventory via enhanced technology.”

Although we support these objectives, we urge the USPTO to exercise caution in increasing fees to a level that could discourage meritorious appeals. For FY2016, 41.5% of appeals resulted in at least partial reversal. Increasing fees to discourage appeals in those cases would not serve the Office’s mission of “foster[ing] innovation, competitiveness and economic growth.”^[1]

The reversal rate of Ex Parte Appeals by PTAB indicates that a large number of appeals are pursued to correct invalid rejections. Although the FRN states that “the true cost of Ex Parte Appeals is being significantly subsidized,” they might be in effect “subsidizing” improper examination processes to correct improper rejections. Moreover, many appeals never reach the PTAB because the examiner withdraws the final rejection upon receipt of the Appeal Brief to reopen prosecution or issue a Notice of Allowance. A 25% increase in appeal fees is too high and fails to take into account the practical realities facing applicants. We recommend that the USPTO consider the following suggestions.

First, consider eliminating or substantially reducing the Notice of Appeal fee. As the Detailed Appendix Slides show, the USPTO’s costs associated with a Notice of Appeal are minimal. By setting the fee at a level that takes the costs of an appeal into account, the USPTO ignores that applicants often file Notices of Appeal to maintain pendency after a Final Office Action, while waiting for the examiner to act on the After-Final Response (*i.e.*, issue an Advisory Action or Notice of Allowance).

If the USPTO reduces or eliminates the Notice of Appeal fee, it could further increase the Appeal Forwarding fee or reinstate the Appeal Brief fee. If the Appeal Brief fee is reinstated, the USPTO should apportion most of the fees to the Appeal Forwarding fee because many appeals never reach the PTAB. Apportioning most of the appeal fees to the Appeal Forwarding Fee would allow applicants to avoid paying for appeals they do not need and would more accurately align the fees collected with the USPTO’s actual costs.

Second, in view of the Ex Parte Appeal backlog, consider not requiring applicant to pay the Appeal Forwarding fee until the application is taken up for review by PTAB. This could reduce the number of appeals the PTAB has to decide and eventually reduce the appeal backlog because applicants would have an incentive to abandon applications on appeal. For example, if commercial interest in an invention changed while the application was awaiting review or if an unfavorable court decision significantly reduced the chance of success on appeal, an applicant might choose to abandon an application instead of paying a \$2500 fee.

^[1] USPTO 2015 Performance and Accountability Report.

Postponing the Appeal Forwarding fee also would take into account the current state of flux of patent subject matter eligibility under 35 U.S.C. § 101. Many applicants are appealing § 101 rejections because the examining corps is reluctant to allow claims that even tangentially raise § 101 issues. If the USPTO or the courts provide clearer guidance while appeals are pending review, applicants might have an incentive to abandon applications after an unfavorable court decision or file an RCE in the event of a favorable court decision or more favorable examination guidelines. This could reduce the number of appeals PTAB has to decide and eventually reduce the appeal backlog.

Third, keep in mind the reality of the appeal statistics. As noted above, in FY2016 about 41.5% of appeals resulted in partial reversals (recorded by the USPTO as partial affirmances) or full reversals. Although some appeals raise close issues, others do not. When applicants must pursue appeals to obtain reversals of invalid rejections, the burden of uneven patent examination quality is shifted to applicants.

Reexamination

The USPTO proposes to establish a new fee code for smaller, streamlined Ex Parte Reexamination proceedings. We support a more cost-effective reexamination regime, which will pass on cost savings to the third party requester in certain situations, but we question whether including claim charts in the 40-page limit for a streamlined reexamination request is feasible.

Ex Parte Reexamination requests currently have no page limit. For the proposed streamlined reexamination proceedings, we suggest that the USPTO adopt a 50-page limit, similar to the previous Inter Partes Reexamination regime's page limits on Office Action Responses by patent owners and Comments from Third Parties.

Office of Enrollment and Discipline

The FRN introduces several new fees related to the Office of Enrollment and Discipline (OED), in addition to increasing existing fees. We applaud the USPTO for dropping the previously proposed new fee code for imposing costs of disciplinary proceedings on practitioners. Disciplinary fees should not be imposed on practitioners when OED determines that no disciplinary action is warranted. If the USPTO were to attempt to assess a disciplinary fee again in the future, we suggest that that fee should be outcome-dependent.

We also appreciate that the USPTO provided historical cost information for various OED fees in response to our previous comments. In light of this historical cost information, we do not oppose the adjustments to the previously existing OED fees listed in Table 13. Nor do we oppose the proposed fees for USPTO-assisted reset of user IDs and passwords, because practitioners can perform these tasks without USPTO assistance using the OED IT system.

Request for Continued Examination

We appreciate the reduction in proposed increases for first Request for Continued Examination (RCE) and Second and Subsequent RCE fees, as well as the USPTO's efforts to reduce the need for RCEs, e.g., QPIDS. The FRN indicates that the Enhanced Patent Quality Initiative might contribute to reducing the need for RCEs. Many RCEs must be filed not just due to late

arriving papers from companion domestic and foreign applications, but due to the inefficient patent prosecution system and particularly Final Rejection and After Final practice.

We continue to urge the USPTO to eliminate the Final Rejection policy and its attendant After Final Practice. Allowing every response to be entered as a matter of right will improve quality and lower pendency as the applicant and examiner focus on the issues in a case without an artificial stop. The USPTO spends significant resources considering and processing Final Rejections and After Final responses, as do applicants.

Before increasing RCE fees, the USPTO should determine the cost of considering and processing After Final Responses and generating Advisory Actions. Those resources could be better spent improving other aspects of the patent examination process. Time examiners spend considering whether an Office Action should be made final, considering After Final Responses, and generating Advisory Actions is also wasted. Elimination of these practices will provide examiners more time within to substantively examine applications rather than consider procedural issues.

Information Disclosure Statements

The USPTO should not increase the Information Disclosure Statement (IDS) submission fee until the USPTO considers and implements the issues raised in its recent “Request for Comments and Notice of Roundtable Event on Leveraging Electronic Resources To Retrieve Information From Applicant’s Other Applications and Streamline Patent Issuance” published in 81 Fed. Reg. 59197 (Aug. 29, 2016). Adoption of more modern digital tools should minimize applicants’ need to file IDSs to make of record information for which the USPTO is already aware via related domestic applications or that it could obtain via the Global Dossier.

We suggest that the USPTO consider lengthening to five months the three-month time period set in 37 C.F.R. § 1.97(e)(1) for communications received from a foreign patent office in a counterpart application. Three months is often insufficient for a foreign agent to process such communications and report them to U.S. counsel and for U.S. counsel to then consider the relevance and determine if an IDS is needed.

Design Patents

We appreciate that the USPTO has reduced the proposed increase to the Design Issue fee by \$200 (to \$800), but continue to be concerned that the minimum fees for a design patent application to issue are still proposed to increase 33.3% (from \$1,320 to \$1,760 for a large entity). This increase is many times greater than the proposed overall increase in fees for utility patent applications and as noted in IPO’s comments of November 24, 2015, this proposed increase wipes away the January 2014 fee reductions for design patent applications.

Design patents might only have a single claim, compared to three independent claims and a total of 20 claims for a utility patent application. As a result of the mandatory restriction practice, applicants for U.S. design patents often need to file more than one design patent application to obtain a range of claims of differing scope to adequately protect their innovative designs, magnifying the effect of any increased fees. Other than to subsidize

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small and micro entity filings, there is no indication as to why the Issue fee for design patents should be increased by 43%.

We also question the USPTO's suggestion that the cost of design patent issue related activities is the same for utility and design applications. Design patents typically contain fewer pages than utility patents, requiring less pre-printing formatting work and lower printing costs. Although the design patent bar has advocated for higher quality patent printing, including the transition to the electronic publication, it is unclear if these additional funds will be used in furtherance of that goal. If these additional funds will be used for these efforts, then the USPTO should release a timeline for when the public can expect these improvements to be implemented.

In sum, the proposed fee increase would create a surplus beyond the stated costs for these services after the large entity issue fee is paid. If cost recovery is the goal, then a modest increase should achieve it. We question whether such a large increase is warranted and believe that it could decrease the incentive to develop and protect new designs. We recognize the importance of fees in providing the USPTO the resources it needs to conduct a thorough search of the prior art and a careful examination of design patent applications. But fee-setting must be based on the cost of providing services (recognizing that costs might not be the same for all types of applications), and the USPTO has not sufficiently explained why these increases are warranted based on costs. Without additional evidence of how the increased fees will be used and will benefit design patent applicants, the increase in fees for design patent applications should only reflect a modest increase more in line with the proposed increase for utility patent applications.

Thank you for considering these comments. We welcome further dialogue or opportunity to provide additional information to assist your efforts.

Sincerely,



Kevin H. Rhodes
President