



13 September 2018

Brendan Hourigan
Office of the Chief Financial Officer
United States Patent and Trademark Office
Mail Stop CFO
P.O. Box 1450
Alexandria, VA 22313-1450

VIA EMAIL to fee.setting@uspto.gov

Re: Proposed Patent Fee Adjustments

Dear Mr. Hourigan:

Intellectual Property Owners Association (IPO) appreciates the opportunity to respond to the request for comments concerning the “Patent Public Advisory Committee Public Hearing on the Proposed Patent Fee Schedule,” 83 Fed. Reg. 37487.

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 close to 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 over 30 countries.

IPO advocates for effective and affordable IP ownership rights and offers a wide array of services, including supporting member interests relating to legislative and international issues; analyzing current IP issues; providing information and educational services; and disseminating information to the public on the importance of IP rights.

IPO appreciates the USPTO’s effort to allow stakeholders the opportunity to provide comments before the publication of the proposed patent fee schedule. Our comments on select proposed fee adjustments are below.

Utility Patents

In his letter to PPAC, Director Iancu notes that the “patent fee proposal is intended to promote efficiency of operations, better align fees with cost, and ensure adequate revenue to deliver on our goals.” However, in a number of instances the proposed fee increases associated with patent application filing do not seem to serve these goals. For instance, although described as a “five percent increase to most patent-related fees,” the USPTO proposes increasing the basic filing fee for a utility patent application by 7%, even though the associated unit cost for patent application filing has actually gone down from 2015 to 2016 and from 2016 to 2017.

President
Henry Hadad
Bristol-Myers Squibb Co.

Vice President
Daniel J. Staudt
Siemens

Treasurer
Karen Cochran
Shell International B.V.

Directors
Brett Allen
Hewlett Packard Enterprise

Ronald A. Antush
Nokia USA Inc.

Estelle Bakun
Exxon Mobil Corp.

Scott Barker
Micron Technology, Inc.

Edward Blocker
Koninklijke Philips N.V.

Amelia Buharin
Intellectual Ventures
Management, LLC

John Cheek
Tenneco Inc.

John Conway
Sanofi

William J. Coughlin
Ford Global Technologies LLC

Robert DeBerardine
Johnson & Johnson

Buckmaster de Wolf
General Electric Co.

Anthony DiBartolomeo
SAP AG

Daniel Enebo
Cargill, Incorporated

Louis Foreman
Enventys

Scott M. Frank
AT&T

Darryl P. Frickey
Dow Chemical Co.

Gary C. Ganzi
Evoqua Water
Technologies LLC

Tanuja Garde
Raytheon Co.

Krish Gupta
Dell Technologies

Heath Hoglund
Dolby Laboratories

Thomas R. Kingsbury
Bridgestone Americas
Holding Co.

William Krovatin
Merck & Co., Inc.

Michael C. Lee
Google Inc.

Peter Lee
Thermo Fisher Scientific

Elizabeth Ann Lester
Equifax Inc.

Kelsey Milman
Caterpillar Inc.

Micky Minhas
Microsoft Corp.

Lorie Ann Morgan
Gilead Sciences, Inc.

Ted Naccarella
InterDigital Holdings, Inc.

Douglas K. Norman
Eli Lilly and Co.

Ken Patel
Procter & Gamble Co.

Dana Rao
Adobe Systems Inc.

Kevin Rhodes
3M Innovative Properties Co.

Paik Saber
Medtronic, Inc.

Matthew Sarbararia
Oracle Corp.

Manny Schecter
IBM, Corp.

Jessica Sinnott
DuPont

Thomas Smith
GlaxoSmithKline

Todd N. Spalding
Alexion Pharmaceuticals

Brian R. Suffredini
United Technologies, Corp.

James J. Trussell
BP America, Inc.

Mark Wadzyk
Qualcomm, Inc.

BJ Watrous
Apple Inc.

Stuart Watt
Amgen, Inc.

Mike Young
Roche Inc.

Bryan Zielinski
Pfizer Inc.

General Counsel
Michael D. Nolan
Milbank Tweed

Executive Director
Mark W. Lauroesch

At the same time, the USPTO proposes increasing the utility search fee by 6% and increasing the utility examination fee by only 5%, despite the unit costs for patent searching and examination both having gone up from 2015 to 2016 and from 2016 to 2017. If fees related to patent application filing must be increased, IPO respectfully suggests that increases be tied more closely to the fee categories in which unit costs have risen, ensuring that the new fee structure will, in fact, “better align fees with cost.”

1. Impact of the Filing and Issue Fee Increases

We are concerned that the USPTO has not provided adequate justification for these fee increases, which seem to exceed the rate of inflation.

The 6% increase in filing fees and the 20% increase in issue fees, for a collective increase of 11%, will come rapidly and in one fell swoop for patent applicants. Fee increases of this magnitude to core patent application filing and issue fees are likely to change patent applicant behavior, which could result in revenue lower than anticipated. For example, patent applicants might reduce their maintenance fees by allowing lower priority patents to lapse in order to maintain patent application filing rates. Due to the USPTO’s heavy reliance on maintenance fee payments to cover costs of patent examination and administration, sizeable increases in filing, searching, examination, and issue fees might end up exacerbating, rather than mitigating, any budget difficulties.

These increases will disproportionately affect small/micro entity applicants and pro se inventors, who might be unable to rapidly absorb the new fees and maintain current patent application filing rates.

Additionally, the 11% increase to filing and issue fees addressed on slide 17 of the PPAC Executive Summary ignores the impact of the new non-DOCX filing surcharge. When considering this new fee, patent applicants currently relying on non-DOCX patent application filings would see a 29% increase in total filing fees, and a 25% increase collectively for filing and issue fees, to continue current practices.

2. Non-DOCX Filing Surcharge

Applying a \$400 surcharge for non-DOCX filing is punitive. This surcharge is roughly a 23% increase in the cost of filing a patent application. Coupled with the proposed increases in the basic filing fee, the search fee, and the examination fee, the USPTO is effectively proposing an increase of over 29% for applicants who file new applications in the same manner as they do today.

If processing costs will be lowered by DOCX filing, IPO recommends that the USPTO balance its fee increase proposals with these efficiencies. For example, rather than applying a surcharge to those who do not file applications in DOCX format, IPO suggests that the USPTO provide a rebate to those who do. Alternatively, IPO suggests reducing the increases in patent application filing costs to reflect the cost savings recouped from those applicants who engage in DOCX filing.

a. DOCX Concerns and Ancillary Costs

The USPTO should reconsider the significant scope of the proposed shift and provide additional guidance for preparing DOCX data to eliminate the risk of submitting priority documents in a non-fixed file format. At a minimum, the USPTO should not penalize patent applicants' noncompliance with the DOCX filing preference by applying a surcharge, but instead only offer discounts for DOCX filing until the DOCX procedure is demonstrably without risk.

The USPTO's preference for DOCX and the associated additional costs for patent applicants that fail to adopt compliant DOCX word processors lack justification unless the USPTO is able to shift a significant portion of its document-processing workload to DOCX. We are not able to substantiate, or evaluate the magnitude of, the purported workload savings with the limited information the USPTO has provided to date.

IPO is concerned about incentivizing a large-scale migration to DOCX filing in the absence of comprehensive testing to ensure a lack of risk from filing DOCX documents. In particular, we are concerned about the potential for unwanted metadata to be retained in DOCX documents transmitted to the USPTO. Although the USPTO's "Filing Text Document via EFS-Web Quick Start Guide" claims that "unnecessary document properties" are detected and removed upon upload, testing by some IPO members suggests that certain metadata is retained in editable documents filed with the USPTO as well as in documents downloaded from PAIR in DOCX form. We would be happy to discuss our findings in more detail. To reassure patent applicants that such metadata retention will not harm applicant interests, IPO suggests the USPTO release data demonstrating the extent of document properties transmitted upon filing and formulate a plan to mitigate availability of DOCX metadata to the public via PAIR.

IPO is also concerned about the potential for introducing inconsistencies between DOCX content rendered by an applicant's word processor and the content that ultimately makes its way into the electronic file wrapper of a patent application. This concern is the reason the USPTO requires fonts to be embedded in PDF documents that are currently filed electronically via EFS. Similarly, no provision has been set forth to correct or avoid errors introduced during the DOCX upload process, such as inadvertent changes to complex areas of the application, including mathematical formulae, chemical structures, and diagrams.

Additionally, it is unclear whether the new surcharge applies only to new priority patent application filings or also to continuing patent application filings. Applying the new non-DOCX filing surcharge fee to continuing patent application filings seems further punitive to patent applicants because the source files for these patent applications might not be available in DOCX format or at all. Converting documents in other formats to DOCX might introduce errors to text or graphics that will be costly for patent applicants to correct to avoid the surcharge. Due to USPTO technical limitations in its legacy systems, only certain documents can be filed in editable format currently—the specification, claims, and abstract. IPO is concerned that, although further options for DOCX filing might be introduced as the Patent Center initiative advances, these technologies have not been fully tested and a penalty enforcing their use is premature.

Finally, the USPTO should thoroughly consider and describe how it will use and make available DOCX documents. Some possible examples: Will examiners be required to respond in kind with editable work product that can be downloaded from PAIR on a consistent basis in DOCX applications? Will the USPTO convert existing PDF documents into DOCX format? Will the USPTO require or request that copies of documents provided by other offices (e.g., WIPO or IP5) be in the DOCX format or will the USPTO convert them?

b. PCT National Stage Entry Applications Avoid Non-DOCX Filing Surcharge

The USPTO proposes PCT national stage fees (e.g., the Basic National Stage Fee, the National Stage Search Fee, and the National Stage Examination Fee) that are nearly identical to the increases to the above-mentioned utility patent application filing fees, but does not introduce the new non-DOCX filing surcharge fee for those PCT national stage filings. Although IPO understands that a non-DOCX surcharge cannot be applied because copies of the PCT publication automatically route into the U.S. national stage application in PDF form, this further highlights the unwarranted nature of the surcharge. If a relatively moderate increase in price for PCT national stage entry applications is believed to be fiscally sustainable within the proposed fee structure, then the same should be true of regular nonprovisional application filings, and the imposition of a new non-DOCX filing surcharge fee in one and not the other seems inconsistent.

3. Information Disclosure Statement Fees

IPO has several concerns about this fee increase. The USPTO has not cited any specific reason for raising the fee nor assigned a unit cost to this item. This is particularly concerning given that this 8% increase in the fee follows a 33% increase in the IDS fee that was imposed in 2018. Our first concern is whether yet another IDS fee increase would keep the fee low enough to encourage timely filings.

IPO also has concerns about increasing the burden of complying with the duty of disclosure when the USPTO's requirements are already burdensome. The fee is required for any IDS submitted after issue of a first Office Action on the merits, unless the applicant can make a statement under 37 C.F.R. § 1.97(e). Although the IDS fee might incentivize prompt disclosure of references cited in foreign patent office communications in counterpart applications, it imposes a cost burden for disclosing any other items when potential materiality is discovered after the three-month period set forth in 37 C.F.R. § 1.97(e)(2). Moreover, the IDS fee is required for any IDS submitted after a final Office Action, even if a statement under 37 C.F.R. § 1.97(e) can be made. Thus, for example, the fee is unavoidable and incurred through no fault of the applicant when a counterpart foreign application search report is issued after a final Office Action. This fee might actually disincentivize prompt disclosure of references, particularly for applications not believed to be close to allowance, as the applicant might decide to wait to file an IDS until an RCE is filed and avoid the fee.

4. Extension of Time Fees

The USPTO has not cited any reason for raising the fees, let alone for raising the first month EOT fee by 10%, other than general cost recovery, yet the USPTO has not assigned any unit cost to EOTs.

Although the USPTO views EOT fees as “optional,” that is not the case for EOTs required to maintain pendency after a response to a final Office Action has been filed. Even if an applicant files a response at the two-month after-final date, if the examiner does not issue an Advisory Action before the three-month date, at least a one-month EOT is required to file an RCE or Notice of Appeal if the response does not result in allowance. When an applicant timely files a response at the three-month after-final date, even further EOTs are required to file an RCE or Notice of Appeal if the response does not result in allowance. These fees are not “optional”; they are required to maintain pendency during the after-final period.

The proposed third month EOT fee is 80% of the filing, search, and examination fees combined, and the proposed fourth and fifth month EOT fees are greater than the filing, search, and examination fees combined. These fees are not always avoidable. In addition to the post-final Office Action period discussed above, an applicant might need additional time to prepare documents necessary to respond to formalities requirements (e.g., a Notice to File Missing Parts or Notice to Comply with Sequence Listing Requirements) or to prepare a complete response to an Office Action.

We encourage the USPTO to consider the impact these substantial fees will have on an applicant’s total patent budget and the risk that setting them too high might result in more applications being abandoned due to cost concerns.

5. Request for Continued Examination Fees

The USPTO proposes to increase the first and second RCE fees by 5%. IPO has concerns that the relative costs of filing an RCE versus a new (continuation) application might incentivize applicants to opt for filing a continuation application instead of an RCE.

The proposed first RCE fee is 75% of the combined filing, search, and examination fees, and the proposed second RCE fee is greater than the combined filing, search, and examination fees. This might incentivize applicants to file continuation applications instead of RCEs, which could disrupt the examination flow and result in an inefficient examination. Based on the unit costs assigned by the USPTO to the filing, search, and examination fees, it is likely costlier for the USPTO to process a new application than a first or second RCE, even if the newly filed application is a continuation application. The unit costs assigned by the USPTO to process a new application are more than two times greater than the unit cost assigned to processing RCEs.

We agree that steps should be taken to reduce the number of RCE filings and improve the RCE system, but the USPTO could reduce RCE filings by reviewing and improving after-final and AFCP 2.0 examiner practices to obviate the need for the filing and processing of an RCE. We suggest that the USPTO explore this and other avenues before imposing higher RCE fees. IPO urges the USPTO to set RCE fees at a level that promotes an efficient examination process while accurately reflecting the USPTO’s relative costs of continuing examination versus processing and examining a newly-filed application.

6. Issue Fees

The proposed 20% increase to issue fees is one of the largest proposed increases, but the USPTO has not provided sound justification for it. Data provided by the USPTO indicate that this proposed 20% increase to issue fees will not allow the USPTO to recover fees earlier in the life of a patent. Specifically, the USPTO's projections for 2021 show the collections from Patent Post Allowance fees remaining at 10% of aggregate collections, and a decrease in the percentage of total fees that are collected through patent issuance. IPO requests that the USPTO reconsider the need for this substantial increase or clearly explain its justification.

7. Patent Maintenance Fee Increases

a. 3.5-Year Maintenance Fee

According to the PPAC Detailed Appendix provided by the USPTO, the 25% increase in the 3.5-year maintenance fee will allow the USPTO "to recover initial search and examination costs earlier in the patent lifecycle," which will be particularly important "as technology lifecycles grow shorter." Technology life cycles are not growing shorter for some industries, however. Funding for start-ups is tight, and front-loading these fees will disproportionately impact start-ups vs. larger companies.

The 25% increase in the 3.5-year maintenance fee is much higher than the proposed 4% increases in 7.5- and 11.5-year maintenance fees, especially in light of the 20% increase in issue fees for utility and reissue patents. IPO suggests that the USPTO bring the percentage change of the 3.5-year maintenance down to a level between the issue fee and the later year maintenance fees to allow recovery of the search and examination costs earlier but not impose such a drastic change in the burden on patentees. For example, a 10% increase in the 3.5-year maintenance fee might be more reasonable. To accommodate this, the USPTO should consider raising the later maintenance fees slightly higher.

Finally, we suspect that the current proposal might not produce the desired result. For example, the steep increase in the 3.5-year maintenance fee combined with the steep increase in issue fees is likely to result in patentees (many with fixed or declining year-over-year budgets) being more selective and ultimately paying fewer issue and 3.5-year maintenance fees. This, in turn, would reduce the overall number of 7.5- and 11.5-year maintenance fees those patentees would be required to pay, which would ultimately reduce the USPTO's revenue. At a minimum, perhaps such a significant increase should be phased in over several years to avoid a sharp impact on patentee behavior.

b. Maintenance Fee Surcharge – Late Payment Within Six Months

The two reasons for increasing the maintenance fee surcharge are: "[1] increasing this fee encourages timely maintenance fee payments and [2] brings the fee more in line with similar fees in other IP offices." PPAC Detailed Appendix at 62. With regard to "encouraging timely payment" the USPTO presumably is referring to public notice and reliance concerns about freedom to operate resulting from lapse of the patent. *See* Letter from the Director to PPAC at 2. However, most entities familiar with patents understand that there is a six-month grace period

after the due date of the maintenance fee. Consequently, there is no public notice or policy concern regarding uncertainty as to whether the invention is in or out of the public domain because of the grace period.

Patentees often need to take the grace period for a variety of business reasons. For example, patentees often require additional time to assess the commercial marketplace for the invention (especially patentees with larger portfolios). Moreover, patentees often require additional time due to unexpected business events—such as a management, counsel, or vendor changes, M&A activity, or financial events—rather than bad behavior that should be deterred by imposing a hefty increase in the maintenance fee surcharge.

Finally, because the USPTO's patent fee setting rulemaking is non-substantive, there is no genuine benefit to fee harmonization with other jurisdictions, especially given that other jurisdictions have differing fee frameworks and service performance.

8. Annual Active Patent Practitioner Fee

More information is needed to justify this fee and how the revenues would be used. According to the USPTO website, there are currently 46,500 active patent practitioners. Thus, this proposed fee has the potential of generating well over \$10 million in additional USPTO income per year. The USPTO's main justification is recovering from practitioners the costs associated with OED services and maintaining the practitioner roster, but the USPTO has not provided data concerning the cost of these services. A fee that funds OED must be commensurate with the services provided and limited to the USPTO. Without a detailed cost accounting, this fee seems excessive to fund the current services provided by the OED, especially when considered as an increase to existing fees collected pursuant to 37 C.F.R. § 1.21(a)(1)-(10).

The CLE discount also lacks a detailed justification. It is unclear how the proposed \$100 discount would urge practitioners to spend the time and money to attend hours of CLE each year. Many currently available patent CLE activities have registration fees alone that are more than the \$100 discount. With such a limited incentive, the use of the CLE discount by practitioners might be so small as to not justify the USPTO's expense and burden in tracking and policing a CLE policy. Moreover, OED plans to notify the public of practitioners who fail to provide the CLE certification essentially makes it mandatory.

Finally, IPO doubts whether the fee addresses a true need of the USPTO and the patent community and whether it is the best use of USPTO resources. It is unclear whether a potentially more accurate roster of patent practitioners, adding a CLE requirement, and funding OED activities will meaningfully benefit the U.S. patent system. Moreover, many practitioners have limited budgets for these types of activities. All registered patent attorneys already belong to state bars and pay dues to maintain their licenses to practice. This new fee could cause some to be unable to participate in other groups or activities given limited budgets and would impose yet another new government administrative burden on the patent community.

Design Patents

Any fee increase for a Request for Expedited Examination of a Design Application should be more modest. The proposed fee increase, from \$900 to \$2,000, represents a 122% increase. There is no corresponding increase in USPTO costs. Under the proposed fee increase, the USPTO would enjoy a \$1,893 surplus on each Request. In light of these facts, and as otherwise explained below, the fee increase, if any, should be of a more modest amount, such as to reflect inflation.

Any fee increase should be consistent with the USPTO's stated Fee Structure Philosophy. In his letter to PPAC, Director Iancu stated that the "patent fee proposal is intended to promote efficiency of operations, better align fees with cost, and ensure adequate revenue to deliver on our goals." With a Request for Expedited Examination, the applicant is required to submit a prior art search, saving the USPTO time and resources because the Office does not have to conduct the search. Discouraging the filing of these Requests by increasing the fee would not promote efficiency of operations, but would actually increase the USPTO's workload.

Nor would this fee increase better align fees with cost. The historical cost of expedited examination for designs in FY2017 is \$107 (a cost which has declined each year from FY2013 to FY2017), meaning that the USPTO currently makes a \$793 surplus on each Request for Expedited Examination. As stated above, the new proposed fee increases the USPTO's surplus to \$1893, which does not align the fee with costs.

No increase appears to be needed to ensure adequate revenue for the USPTO to deliver on its goals. As stated above, the Office appears to already enjoy a substantial surplus on Requests for Expedited Designs and such Requests actually reduce the USPTO's workload. It does not appear that the USPTO requires a 122% increase in this fee to appropriately manage staffing.

In the PPAC Detailed Appendix at slide 63, the USPTO says that this increase "will bring the fee more in line with the request for prioritized examination of a utility patent examination." Setting aside whether these fee structures should be aligned, currently the two sets of fees are almost exactly the same and no substantial increase is needed. For \$4,000, Track One examination accelerates the examination of up to four independent claims and no more than 30 claims total. Currently, accelerating the examination of four design claims costs \$3600, because each design application is only allowed to have a single claim. Under the proposed increase, design applicants would pay \$8000 to have four design claims expedited (as opposed to \$4200 for Track One under the proposed increase). This substantial increase would penalize applicants seeking design rights.

Fee increases are particularly harmful to individual inventors and small entities. Although small entities benefit from a 50% discount, the increase in the expedited examination fee is quite significant. Keeping in mind that small entities must still procure a prior art search (at the cost of \$750 to \$1500 or more), the cost of expedited examination of a single design claim might exceed \$2000. This dramatic increase will make it more difficult for small entities to stop theft of their designs by counterfeiters.

Because the U.S. has a lengthy examination system, applicants need an accessible route to expedited rights, such as exists in Europe, especially to address counterfeiting. Although some design applicants are able to wait 19+ months for design protection, in certain situations rights are needed more quickly. Expedited design examination is crucial to applicants who are facing counterfeit products. Recognizing this, other systems, such as the European Union, can provide rights on an expedited basis. (In the case of the EUIPO, rights can be granted in as quickly as two days, at no additional cost.) If the proposed fee increases are implemented, we would expect certain foreign applicants to decline to file in the United States, or when possible, to file for copyright instead of seeking design rights.

Patent Trial and Appeal Fees

The proposal assumes that *SAS Inst. v. Iancu*, 584 U.S. ___ (2018), will increase the Patent Trial and Appeal Board's workload, but that might not be true and at a minimum data is not yet available to substantiate this assumption. Moreover, institution rates on petitions have been declining and *SAS* might lead to more denials because institution is an all-or-nothing proposition following *SAS*; that is, the petition must be denied where the petitioner has failed to meet its burden on all petitioned claims. In any event, raising the fees for PTAB trials runs counter to Congress' intent to make PTAB trials cost efficient.

These increases incentivize petitioners to include weak challenges to additional claims, causing additional work for the USPTO (and patent owners). A better way to align fees with costs might be to reduce the claim threshold (such as to 4-6 claims) and to increase excess claim fees. This would disincentivize challenges to claims that are likely valid. Alternatively, PTAB might consider fee increases post-institution to handle any additional work.

We again thank the USPTO for permitting IPO to provide comments and would welcome any further dialogue or opportunity to provide additional information.

Sincerely,



Mark Lauroesch
Executive Director