

From: Alexander Franco <alexanderfranco@gmail.com>
Sent: Wednesday, February 29, 2012 9:47 PM
To: fee.setting
Subject: Fee Setting - Comments and Responses to "PPAC Questions for Fee Setting Hearings"

Sirs, Mesdames,

Please consider the following comments in response to the memorandum from the Patent Public Advisory Committee on the topic of patent fee setting, dated February 7, 2012. Each of the questions posed in the memorandum has been repeated below followed by a response.

As a preface to the responses that follow, I would like to commend the Patent and Trademark Office (PTO) for its work to date on driving implementation of the America Invents Act. In particular, I think that the PTO's Patent Fee Proposal dated February 7, 2012 is an excellent start. With that being said, the Patent Fee Proposal is not without controversy, and I encourage the Committee and the Patent Office to consider alternatives. In the response to Question 2, below, I propose one such alternative in the form of a general policy to guide the fee setting process. The proposed policy is motivated by the following key objective:

The Patent and Trademark Office should establish a simple, transparent fee setting policy that can be applied on a recurring basis to adapt to changes in costs and demand for services while also providing for low cost entry to the patent system.

The proposal presented here would result in fees that are, for the most part, relatively consistent with the PTO's Patent Fee Proposal. In most cases, there would be only moderate differences. A key advantage, however, is that this proposal provides a mechanism by which the PTO can reset fees on an annual basis, automatically, as opposed to going through repeated public policy debates on the merits of individual fees. This would better position the PTO to adapt to changes in costs and changes in demand for its services while providing a consistent quality of examination.

Note: Question 1 is addressed out of order after question 3, below.

QUESTIONS PRESENTED BY THE COMMITTEE

QUESTION 2

Several of the current patent fees are subsidized, meaning the fees do not recover the full costs that the USPTO incurs when performing those services. For example, an applicant may pay \$100 for a service, but the USPTO's costs may actually total to \$180.

- a. Do you agree with the premise that the USPTO should take into account specific policy goals to set or adjust fees to have some fees higher and some fees lower than total expected costs to achieve those goals?
- b. Please share your opinions on which fees (if any) should be subsidized.
- c. Please share your opinion on which fees (if any) should be set to recover more than full cost and provide the subsidy."

RESPONSE TO QUESTION 2

The USPTO's present and proposed fee structures seek to achieve multiple public policy goals, which, while laudable in theory, ultimately result in unnecessary complexity and controversy in practice. For example, there is notable controversy in the patent community regarding the proposed fees for a request for continued examination (§1.17(e) going from \$930 to a proposed \$1700) and for the new AIA provision for filing a late oath

or declaration up to the notice of allowance (proposed at \$3000). On the other hand, while many fees are favorably set below their cost recovery amounts, most stakeholders are nevertheless displeased with long patent application pendency times resulting from the Patent Office's inability to properly fund its examination operations based on these low fees.

Rather than seeking to achieve multiple public policy goals, I urge the Office to consider a simpler approach founded on three basic principles as follows:

First, consistent with the policy intent of public laws 96-517 and 97-247, which established patent maintenance fees, the Office should encourage participation in the U.S. patent system by discounting U.S. patent application service fees from their projected costs. The discount should be a uniform percentage for all services, and the discount should be subsidized through the patent maintenance fee system.

Second, for services other than normal U.S. patent application processing, the fees for such services should be set at their projected costs to the Office without subsidy or surcharge.

Third, other attempts to adjust fees to achieve various stakeholder public policy objectives should be avoided.

More particularly on the first principle, for U.S. patent application processing services (e.g. filing, examination and issue), the fees for such services should be set at their projected costs reduced by a uniformly applied proportional discount. In other words, the fee for each U.S. patent application processing service should be set at a fixed percentage of the cost of providing that service. The discount, as well as small and micro entity discounts, which would be applied on top of the proportional discount, should be funded by available maintenance fee revenue.

In accordance with this proposal, the percentage discount for all U.S. patent application processing services would be the same and the fees for all services would bear a direct relationship to cost. The amount of the discount to be applied can be determined algebraically based on projected aggregate application processing costs and projected aggregate patent maintenance fee collections along with projected small and micro entity participation rates. As the numbers of applications filed, maintenance fees paid and costs vary, the discount can be recalculated and reapplied to create a new schedule of fees based on costs. An annual adjustment of fees calculated in this manner should be sufficient to enable the Office to adapt to changes in costs and demand for services, especially if the Office maintains an operating reserve.

By leveraging maintenance fees in this manner, a balance is established between the revenue collected by maintenance fees and the subsidy provided to U.S. patent application processing services. The debate over fees, therefore, can be reduced to the question of the appropriate balance between maintenance fees and discounts to achieve the desired public policy effect. As an alternative to adjusting the discount and U.S. patent application processing fees accordingly, maintenance fees could be adjusted, taking into account elasticity of demand to pay them, to maintain a stable discount. As yet another alternative, both maintenance fees and the discount could be adjusted and balanced on a periodic basis.

I propose that the following services, by way of example, should fall into this class that would be discounted through maintenance fee subsidies: U.S. patent application filing, search, examination, excess claims, request for continued examination, appeal, and issue.

The underlying rationale for this first principle is that there are many routes that a patentee might take from the filing of a patent application to obtaining an issued patent. We should not discriminate between or penalize applicants based on the particular route they take or the particular Patent Office services of which they choose to avail themselves. One applicant may luckily see a first action allowance. For another applicant, unforeseen

prior art first cited in a final action may necessitate a request for continued examination. For yet another applicant, a win on appeal may result in a patent. I see no justifiable public policy basis to support discriminating between these available services when it comes to the relationship between costs and fees charged.

On the second principle set forth above, I propose that the fee for each service not related to regular U.S. patent application processing (e.g. reissue) should be set to recover its individual cost to the Office. With respect to these fees, I submit that the advantages in terms of fairness and the simplicity of establishing revenue-neutral fees and services trumps any public policy basis to subsidize some services at the expense of others. Further, with respect to services unrelated to U.S. patent application processing, customers requesting such services will typically be better positioned to pay fair and full value for the services received.

I propose that the following services, by way of example, should fall into this class that would be based directly on cost-recovery without subsidy thereto or therefrom: reissue, reexamination, supplemental examination, inter partes review, provisional application filing and PCT-related services.

On the third principle set forth above, I believe that additional adjustments to fees beyond the maintenance fee-based subsidy suggested above are unnecessary and may be counterproductive. Inevitably, when attempting to subsidize some services in favor of others, there will be some degree of arbitrariness in the exact amount of the subsidy. Further, some parties or stakeholders will benefit while others will be disadvantaged. The result is controversy.

Take, for example, the proposed fee of \$1700 for a request for continued examination (RCE), which is set at its unit cost and is not subsidized. In contrast, the proposed file/search/examination fees are set at \$1840 in the aggregate and are subsidized to be well below their listed combined unit cost of \$3906. Although the Office seems to be trying to dissuade patent applicants from filing RCEs (which may or may not work), in many situations the need to file an RCE depends more upon the particular examiner reviewing a case than the patentee or the claimed invention. Further, setting the RCE fee to be approximately equivalent to the combined file/search/examination fee may provide perverse incentives for certain applicants to game the system by filing continuations rather than RCEs.

Ultimately, I do not see a sound public policy basis for discriminating between various Patent Office services of which patent applicants may need to avail themselves in order to complete the patenting process. Similarly, I do not see a sound public policy basis for discriminating between services unrelated to regular U.S. patent application processing and of which other clients of the Office may need to avail themselves in conducting their business.

One corollary to the foregoing proposal is a potentially significant impact on extension of time fees. The Patent Office does not list a unit cost for extensions of time in its Patent Fee Proposal, indicating "unit cost was not calculated for these fees because there are no significant, specific activities supporting them, other than collecting and depositing the fee." See Footnote c, Attachment 1, of USPTO Table of Patent Fee Changes, dated February 7, 2012. In accordance with the foregoing proposal, a zero cost service implies a zero cost fee and thus we could have the end of extension fees. But alas, there may be some measurable cost to the Office in not keeping the patent examination process moving along. Consider that after a long lapse between an office action and an applicant's response, an examiner may have to spend more time refreshing herself on the case. After 6 months or more since writing an office action, the recollection of the issues at hand may become stale, and the examiner may require an extra hour or more to refresh herself on the issues. I suggest that a survey of examiners on this point could yield meaningful data upon which effective costs of extensions of time could be based.

In summary, I submit that the foregoing principles would enable the Patent and Trademark Office to establish a

simple, transparent fee setting policy that could be applied mechanically and on a recurring basis, to adapt to changes in costs and demand for services while also providing for low cost entry to the patent system.

QUESTION 3

The proposed fees are set in the aggregate to achieve certain patent application pendencies (i.e., 10 months to first action and 22.9 months total pendency) by 2015.

- a. Are these the correct goals?
- b. If no, what would be correct goals?
- c. If you believe the goals in question (a) to be correct, do you agree with setting the fees at the proposed levels to achieve these goals by 2015?

RESPONSE TO QUESTION 3

I find the pendency goals set by the PTO to be reasonable. Further, I suggest that the model proposed above in response to Question 2 can be applied in relatively straightforward fashion in conjunction with adequately adjusted maintenance fees to achieve the PTO's proposed goals.

QUESTION 1

The proposed patent fee structure will provide resources to begin funding a patent operating reserve.

- a. Should the USPTO maintain an operating reserve?"
- b. If "yes," do you believe it is reasonable for applicants to pay fees above and beyond the fees needed to cover aggregate costs to fund the operating reserve?
- c. What is an acceptable size (in months, dollars, or percent of total USPTO expenses) for the patent operating reserve?
- d. How long should it take to fund the operating reserve?
- e. Should some or all of the fee increases sunset once the fund has been established?
- f. If so, which fees should sunset?

RESPONSE TO QUESTION 1

I agree that the PTO should create and maintain an operating reserve, and it should be funded by patent service and maintenance fees. In accordance with the model proposed above, the funding of the reserve can be treated as an additional overhead cost that is proportionately allocated across all services during the buildup of the reserve. I note, however, that if the PTO revises its fees yearly, as proposed above, there should be less need for the operating reserve. Even with an attenuated need, however, I find the three month reserve proposed by the PTO to be reasonable. I also find the timeframe of four years proposed by the PTO to fund the reserve to be reasonable. Once the reserve is funded, an annual reevaluation of fees in accordance with the model proposed above would presumably result in a relative decrease in all fees by removing the cost of funding the reserve from the overhead cost across all patent services.

QUESTION 4

Please provide feedback on proposed patent issue and maintenance fee structure.

- a. Do you agree with the concept of the fees starting at a moderate level and increasing substantially as time passes?
- b. Do you believe the fees reflect an appropriate balance between up-front revenue and later payments (e.g., maintenance fees)?

RESPONSE TO QUESTION 4

I agree with the general premise of increasing maintenance fees over the life of a patent. I also feel that the maintenance fees in the PTO's Patent Fee Proposal reflect an improved balance between up-front revenue and later payments.

To expand on this question, I suggest considering an eventual move by statute, or by rule if possible, to an annual maintenance fee system consistent with many other countries. An annual maintenance fee system would provide more opportunities to the patent holder to evaluate the value of a patent versus the cost of the maintenance fee. Such a system would also lessen the adverse outcome of a regrettable decision to pay or not to pay – especially with respect to the 11.5 year maintenance fee in the U.S. For the last 2 or 3 years of a patent's life, much higher maintenance fees could be extracted from holders of exceptionally highly valued patents who are enjoying substantial monopoly or license profits. These fees, in turn, could be used advantageously to reduce pendency and subsidize patent application service fees.

QUESTION 5

In setting fees, the USPTO estimates how applicants will respond to fee changes by applying an economic concept known as elasticity. Elasticity is a measurement of how sensitive patentees are to fee amounts or changes. If elasticity is low enough (demand is inelastic) then when fees increase, the decrease in patenting activity is minor enough that overall revenues still go up. If elasticity is high enough (demand is elastic), then increasing fees will decrease patenting activity more and will result in less revenue.

- a. Do the proposed elasticity assumptions appear reasonable?
- b. Will these fees have an impact on your ability to file, prosecute, or maintain patent applications/patents?
- c. What is that impact? Will you file or prosecute fewer or greater applications?
- d. Will you be willing to file proceedings post-grant?
- e. How do the proposed fees affect your decision on whether or not to file these proceedings?
- f. Do you believe the fees accurately provide the necessary benefits to applicants/patent owners/opposers to justify the fees set?
- g. At what level increase do the fees require changes in your practice?
- h. What things would you stop first: filing new applications, paying maintenance fees, or something else?

RESPONSE TO QUESTION 5

Currently, Patent Office fees represent a minor proportion of the overall cost to an applicant of the patenting process, which implies a low elasticity. As that proportion increases, the effect on applicant behavior will become more pronounced leading to a higher elasticity. The specific questions posed here, however, might be better suited for a broadly circulated survey of the patent community.

QUESTION 6

In the proposed fees, the USPTO estimates that straightforward prosecution (including Initial Filing Fee, Examination Fee, Issuance Fee and other associated fees) will go down as measured against current fees. But RCE and Notice of Appeal fees may go up.

- a. How do you see the effect of these fees on the prosecution of actual cases before the USPTO?
- b. In practice, are you or your clients required to file RCE or Notices of Appeal to continue prosecution and thereby, do you believe the proposed fees will increase the costs on average to you for prosecuting the average case before the USPTO?

c. How substantial do you estimate those costs on average to be?

RESPONSE TO QUESTION 6

The USPTO's proposed changes to straightforward prosecution fees are relatively small compared to the overall cost of preparing and prosecuting a patent application when the cost of counsel is taken into account for most applicants. Therefore, I do not anticipate a substantive change of behavior based on the decrease in prosecution fees. The PTO's proposed changes in RCE and Appeal fees, however, are more substantial on a relative basis, and I believe these increased fees may be material factors in the decisions of some patent applicants.

Disclaimer: The views presented herein are my own and should not be attributed to or associated with any company or organization.

Respectfully submitted,

Alexander Franco
Patent Attorney
Reg. No. 45,753
21534 WILD TIMBER CT
BROADLANDS, VA 20148
+1 (703) 437 1947
alexanderfranco@gmail.com