

**August 14, 2023**

PATENT PUBLIC ADVISORY COMMITTEE
FEE SETTING REPORT

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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 April 20, 2023. As provided by the statute, the PPAC held a public hearing on May 18, 2023, 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 2025.

The fee adjustment includes targeted adjustments to assignments, continuing applications, design patents, PTAB fees, significant increases to accelerated design patent examination fees, and surcharges for request for continuation, excess claims, patent term adjustment, terminal disclaimer and unintentional delay petitions. There is also a 5% across the board inflation adjustment. And finally, there is a request for another 5% across the board increase.

# **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.[[1]](#footnote-1) Assessing the aggregate proposed fee increases involves considering the USPTO’s overall needs to fulfill its mission of supporting the country’s innovation system, including the need to maintain a robust operating reserve. At the last fee setting hearing, which occurred in 2018, there was much discussion of improving the USPTO IT infrastructure to both assure its operational reliability and help examiners improve patent quality. That same need exists today, as the cloud migration program is only about 20% complete. Fulfilling both the public and the Director’s interest and commitment to increase reliability and certainty in the patent system will require continued improvements to both the examination and PTAB processes. And finally, the PPAC reviewed the current context the USPTO finds itself in. First, the Unleashing American Innovators Act (UAIA) of 2022, signed into law December 29, 2022, reduced barriers to entry into the patent system by increasing small and micro entity discounts. As a consequence of new, higher discounts, the USPTO will collect significantly less fee revenue going forward relative to baseline estimates. In the fiscal year 2024 budget it is estimated to amount to a $600 million fee reduction. Second, the USPTO was required to provide a 4.8% pay raise starting in 2023. Additionally, in the FY 2024 budget, an additional 5.2% pay raise was included as part of an all of government requirement. Thus, the USPTO finds itself depleting its required reserve balances due to both Congress and required government raises.

Whether the aggregate fee increase makes sense depends upon whether, whether USPTO is prioritizing the right expenditures to fulfill 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 effect on applicants. The impact of costs on applicants, particularly small inventors, is an important factor in the assessment. It is important to both PPAC and the USPTO that price does not significantly inhibit an inventor’s willingness to seek patent protection. Increases proposed for individual fees as well as newly introduced fees can be judged based on fairness, their effect on applicant behavior, and whether they are in fact likely to raise expected revenue.

# **Overall Public Sentiment**

Overwhelmingly in both oral and written comments, the public wanted more a more reliable and durable patent right emanating from examination. Many mentioned they would be supportive of a fee increase if it was used by the USPTO to provide that increased reliability and certainty. In general, many commenters were supportive of an inflationary adjustment. In the oral comments, there were a number of references to patient advocates requesting that patents be weakened or eliminated in favor of reduced drug pricing. While the healthcare challenges and unmet medical needs of patients are both heartbreaking and compelling, this is both a misguided and ill-informed understanding of the relationship between patents and drug pricing. The availability of reliable and durable patents is the necessary foundation to billions of dollars of research investment into tomorrow’s cures. Patents are vital part of the solution to today’s unmet medical needs, not the problem. Furthermore, there are a number of other more relevant considerations, which are out of scope of this report, that affect drug pricing.

# **Aggregate Fee Increase**

**The PPAC supports this fee increase.** The current fee proposal contained two separates, across the board fee increase. The first was a 5% inflation adjustment. As mentioned above, the USPTO has already included a 4.8% pay increase in 2023 and is looking at another 5.2% pay increase in 2024.

**The PPAC does not support this fee increase.** The second across the board fee increase of 5% was designed to front load fees in order to reduce the reliance on maintenance fee renewals. The PPAC does not support this fee as we believe it places an undue burden on individual inventors and small businesses.

# **After Final Consideration Pilot (AFCP-a 2.0)**

**The PPAC views this fee as problematic** as it requires paying the fee without any guarantee of an interview. We suggest that the USPTO consider either of the following proposals:

* 1. Don’t require a fee unless you can guarantee the applicant will get an interview
	2. Alternatively, don’t pay the fee until the applicant does get an interview

If either case were to be enacted, then PPAC would support the fee increase.

# **Assignments**

Previous assignment recordation fees were eliminated by the USPTO in 2014, however since then, there has been an increase in frivolous recordation submissions. This fee increase was viewed as one potential way to reduce such submissions. **The PPAC is against this fee** as ensuring transparency of ownership is key to patent data integrity, and we do not recommend USPTO to impose a fee that would provide an impediment to keeping assignment data up to date.

# **Continuing Applications**

Continuing applications provide a high value mechanism for companies and inventors to keep a potential patent application in process over a longer period of time. **The PPAC supports this fee with the following modifications:** Drop the year three provision and only make applicable for year 7 or after. Three years is too short of a period, as there may not yet be an office action, particularly if the case was filed via the PCT or in art areas with significant backlog, or other information from which to evaluate the need to file one or more continuations.

# **Design Patents**

**The PPAC does not agree with this fee.** PPAC believes that the USPTO should prioritize pendency issues before applying fees here, as many design patent users are already paying expedited fees given the long pendency backlog issues currently happening. Perhaps these issues could be addressed by a law change to implement maintenance fees.

# **Excess Claims**

**The PPAC is supportive of this fee increase with the following caveat:** It is clear that the public wants more certainty that an increased fee will be spent on examination and/or giving the Examiners additional time to evaluate such cases.

# **Extension of Time (EOT) for Provisional Applications**

**The PPAC is supportive of decreasing EOT fees for provisional applications**.

# **Information Disclosure Statement (IDS)**

**The PPAC is supportive of this fee increase,** however we note that if Congress would reform inequitable conduct rules, this by itself may largely affect applicant behavior. With current inequitable conduct case law, there is undue pressure on practitioners to cite every possible reference or risk the practitioners right to practice or the enforceability of the case. The PPAC recommends a legislative proposal to change this pressure. Also, if additional fees are paid, we suggest the additional money should go towards allowing Examiner’s more time to consider the additional references.

# **Patent Term Adjustment**

This fee is proposed to cover the USPTO cost of a patentee requesting the adjustment of the patent term of their patent. **The PPAC is generally supportive of this fee with the following caveat:** If the USPTO made the adjustment mistake, then the applicant shouldn’t have to pay, if not, then applicant should pay the fee.

# **Patent Term Extension**

This fee increase fee proposal is for patentees seeking to extend the patent term under 35 U.S.C. 156 in conjunction with the Food and Drug Administration/U.S. Department of Agriculture approval process. **The PPAC supports this fee in principle**, however we suggest the USPTO consider if such a large jump in fees is optimal, particularly the initial fee given start-up companies may be resource constrained.

# **Request for Continued Examination**

This fee increase raises the fee for a first RCE by 10% and splits the current fee for second and subsequent RCEs into an increased fee for a second RCE and a new, higher fee for a third and subsequent RCE. **The PPAC supports this increase** as this allow the costs of continued examinations to be recovered directly from those applicants requesting multiple RCEs, instead of relying on other fees to subsidize the costs. The proposal continues to set the first RCE below cost.

# **Suspension of Action**

This fee increase creates a tiered system in which the fees for subsequent suspensions are charged at a higher rate. This fee increase would not affect fees for suspensions of action requested at the time of filing a CPA or RCE. **The PPAC supports this fee increase** as the fee increases encourages efficient applicant behavior and examination and costs associated with suspension of action should not be subsidized by other fees.

# **Terminal Disclaimer**

**The PPAC does not support this fee** **increase.** The stated justification is that an earlier terminal disclaimer submission permits the USPTO to reduce unnecessary examination costs, reduce appeal costs, provide greater certainty for the public, and promote overall efficiency of operations. PPAC does not agree that a fee increase will achieve these objectives. Furthermore, the fee increase will place an unfair burden to filers with limited resources. The increase will pressure such filers to give up patent term in exchange for a less expensive more compact prosecution while those with more resources can wait to see if they need to file a terminal disclaimer until allowable claim scope is identified.

# **Unintentional Delay Petitions**

**The PPAC supports this fee increase.** The fee increase for a petition with a delay less than or equal to two years is designed to offset the costs of processing the petition. The creation of a higher tier aligns with increased costs to the USPTO when deciding a petition with a longer delay.

# **AIA Trial Fees**

**The PPAC supports this fee increase.** The costs associated with IPR have continued to increase as a result of recent court cases and higher operating costs caused, in part, by inflation.

The AIA fee increase supports aggregate cost recovery for USPTO operations.

# **Word Count**

**The PPAC does not support this fee**, as the fee increase favors well-resourced petitioners. Even if the small inventor is granted the same number of words, the expense to prepare longer, responsive papers is a significant burden. We believe the USPTO should set a reasonable word limit, and if the petitioner needs additional words, the petitioner can request additional words with the appropriate showing of cause.

# **Director Review of PTAB Decisions**

**The PPAC does not support this fee.** Director review should be encouraged to ensure that all PTAB decisions are consistent. Adding a fee for this previously free service, may adversely affect individual inventors and small company applicants.

# **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 with adequate time to complete the same, supported by state of the art and reliable IT infrastructure. The lack of reliability and certainty of the patent right has led to growing frustration among the public. The more prevailing view is that innovation is hindered by uncertainty about which patents are in fact valid. This has led to more litigation, consuming valuable and limited resources for both inventors and companies.

As noted above, the PPAC has not supported some individual fee increases and has asked for further refinement for others. It is believed that the PPAC unsupported fees will negatively impact individual inventors and could incentivize them to abandon the patent system completely, no longer seeking to protect their inventions. This is not helpful to our nation’s goal of increasing our economic and technological competitiveness.

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 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 May 18th. 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 operations and functionality providing the capabilities that the USPTO needs to fulfill its goal of providing reliable and certain patent rights.

1. It should be noted that there were a number of both written and oral comments challenging the USPTO’s authority under the statute to conduct the fee setting process. The PPAC has neither the ability nor the standing to make a legal determination as part of our role in the fee setting process. We have turned over all documentation regarding these challenges to USPTO legal. [↑](#footnote-ref-1)