



UNITED STATES
PATENT AND
TRADEMARK OFFICE

Under Secretary of Commerce For Intellectual Property and
Director of the United States Patent and Trademark Office
Washington, DC 20231
www.uspto.gov

November 30, 2001

The Honorable Donald L. Evans
Secretary of Commerce
Washington, DC 20230

Dear Mr. Secretary:

On behalf of the Patent Public Advisory Committee, pursuant to legislative mandate, I am pleased to submit its Annual Report to the President, the Secretary of Commerce, and the Committees on the Judiciary of the United States Senate and House of Representatives.

The Patent Public Advisory Committee reviews the policies, goals, performance, budget and user fees of the United States Patent and Trademark Office with respect to patents. The Committee was appointed in July 2000 and has been in operation for over a year. We look forward to our next year of service and further involvement in the review and advice roles.

This Report emphasizes the imperative for retention of all fee income received by the United States Patent and Trademark Office. We appreciate your consideration of this and other recommendations in the Report.

Respectfully submitted by the
Patent Public Advisory Committee,

By: Margaret A. Boulware
Margaret A. Boulware, Chair

Enclosure

cc: Mr. Nicholas P. Godici
Acting Under Secretary of Commerce for Intellectual Property and
Acting Director of the United States Patent and Trademark Office



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**PATENT
PUBLIC ADVISORY COMMITTEE**

ANNUAL REPORT

NOVEMBER 30, 2001



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EXECUTIVE SUMMARY

The U.S. patent laws are broad in scope and application so that inventors in new technologies can be protected just as mature technologies. Keeping pace with the pioneering discoveries as well as the increasing number of patent applications demands a high level of production at the United States Patent and Trademark Office (USPTO). Patent applications have jumped in double digits for each of the last two years, while funding for the USPTO has not kept pace. Specifically, the USPTO has fee income paid by its users diverted to other Government programs. The Patent Public Advisory Committee (P-PAC) strongly supports the full retention of all user fees. The fees are designed to ultimately pay for the services provided to examine and grant patents. The more applications filed, the greater the fee income generated to support the process. The continuing diversion of over a hundred million dollars each year has left the USPTO with a critical shortage of funding.

The P-PAC supports the goals of the USPTO in issuing the highest quality patents with a declining pendency. The projections at this time are that patent application pendency could increase to 38.6 months by 2006 without serious changes in operations at the USPTO. The patent examining corps is key to both the quality and pendency issues. With an increase in applications, the growth and maintenance of the examining corps is critical. The Committee supports the pay raises this fiscal year for the examiners, as well as flexible hours and work-at-home programs to retain experienced examiners. The Committee also supports aggressive hiring programs, particularly in the electrical, computer software and business method patent areas where the backlogs are the greatest.

Quality of issued patents is one of the most difficult issues to address because of its subjective nature. The P-PAC has a Quality Subcommittee that is working with the USPTO in a task force approach to develop metrics to measure quality of issued patents, as well as the processes used to examine patents. The task force will work in its advisory capacity with the USPTO to increase the quality of issued patents.

An e-Government Subcommittee has been advising the USPTO primarily in the implementation of a paperless patent application and examination procedure. The Committee recommended an aggressive approach to implement electronic processing by 2004, which is the current goal adopted by the USPTO.

The strength of the country's economy has been scrutinized even more closely since the tragic events of September 11, 2001. The USPTO is a critical agency in the initiation of new businesses and the continued development of economic growth by issuing the patents, which are among the core assets of large and small businesses.

INTRODUCTION AND BACKGROUND

The P-PAC is required to prepare an annual report for distribution to the President, Secretary of Commerce and Committees on the Judiciary of the Senate and House of Representatives. The tragic events of terrorism that shook this country in the last few months are an omnipresent overlay in the operation of the Federal Government. The USPTO is an agency dedicated to the promotion of innovation, and its goals stand in sharp contrast to the destructive objectives of the enemies of modern progress. The USPTO can be regarded as symbolic of the American entrepreneurial spirit. It is available to provide U.S. patent protection to citizens of any country in the world to allow an opportunity to exploit inventions in the U.S.

The P-PAC is more determined than ever to advise the USPTO to the best of our ability to ensure the issuance of the best quality patents. The USPTO must continue to operate at a high level of quality and production to support the economic needs of our innovators, whether independent inventors or multinational companies. The P-PAC urges that the USPTO operations should be a priority, particularly in challenging times, and presents this second of its Annual Reports, for Fiscal Year 2001.

The P-PAC was created to advise on "policies, goals, performance, budget and user fees of the USPTO with respect to patents."¹ The first members of the P-PAC were appointed on July 13, 2000. The P-PAC is composed of nine voting members appointed by the Secretary of Commerce to advise the USPTO and represent interests of the diverse users of the USPTO² and three non-voting members representing each labor organization recognized by the USPTO.³ To reflect the rapidly changing intellectual property community, the P-PAC includes members from small entrepreneurial businesses, small inventors and universities to large U.S.-based corporations in a wide range of technical fields,

¹ American Inventors Protection Act of 1999 (AIPA); 35 U.S.C. § 5(d).

² AIPA, 35 U.S.C. ' 5(b)(2).

³ AIPA, 35 U.S.C. ' 5(b)(3).

including biotechnology, Internet technology and consumer products. The first meeting of the P-PAC was held on August 23, 2000.

For over 200 years, the basic purpose of the USPTO has been to administer the patent and trademark laws of this Nation. For patents, these laws have their foundation in Article 1, Section 8, of the United States Constitution providing that the Federal Government promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their respective discoveries. Under this system of protection, American business has flourished. New products have been invented and marketed, creating employment opportunities for millions of Americans.

Through the issuance of patents, the USPTO encourages technological advancement by providing incentives to invent, invest in and disclose new technology worldwide. By disseminating patent information, the USPTO promotes an understanding of intellectual property protection and facilitates the development and sharing of new technologies.

At the outset, the P-PAC wishes to state its unanimously held appreciation of the critical importance of high quality U.S. patents -- to sustain economic growth in the United States and to human progress everywhere. Patents drive technological innovation and, in turn, such innovation has driven the remarkable increase in U.S. productivity and the resulting real growth of the economy. Across ever-broader sectors of the global market, more and more companies are discovering that patents are among their most valuable assets. Conservative economic estimates place the value of patents and other forms of intellectual property as accounting for two-thirds of the market value of corporate America. Patents are becoming more widely recognized by the general public as valuable capital in today's economy.⁴

The appreciation of the importance of patents to our national well-being is dramatically reflected in the substantial increase in the number of patent applications filed in the USPTO. Ten years ago, in

⁴ "Idea Wars, A Fight to Control A New World Currency," *The New York Times*, November 11, 2001, Section 3, page 7.

Fiscal Year 1990, the USPTO received 163,571 patent applications, which number has grown to 325,335 in Fiscal Year 2001. This growth was almost 11% over the 293,244 applications in Fiscal Year 2000.

PATENT PUBLIC ADVISORY COMMITTEE OPERATIONS

The P-PAC organized three subcommittees this year on issues of strategic concern for the USPTO:

- e-Government coordinated by Ronald E. Myrick with Vernon A. Norviel, Andy Gibbs and Julie Watson;
- Quality coordinated by Katherine E. White with James L. Ferguson, Roger May and Melvin T. White; and
- Budget coordinated by Margaret A. Boulware with Gerald Mossinghoff, Patricia Ingraham and Ronald J. Stern.

The subcommittees were formed to facilitate the advisory function of the P-PAC with members of the USPTO.

The P-PAC met on October 11, 2000, in Arlington, Virginia, in Executive Session to review and provide comments on the draft USPTO budget for 2002, which was confidential at that time. Subsequent meetings of the P-PAC in 2001 were held in Arlington, Virginia, as follows:

- February 28, 2001: Executive Session
Public Meeting⁵
- May 2, 2001: Public Meeting⁶
- May 3, 2001: Executive Session
- October 17, 2001: Executive Session
Public Meeting⁷

5 <http://www.uspto.gov/web/offices/com/advisory/acrobat/ppactrans2-01.pdf>

6 <http://www.uspto.gov/web/offices/com/advisory/acrobat/ppactrans5-01.pdf>

Although the October 17, 2001, meeting was held in fiscal year 2002, the activities of the Public Session will be included in this report for 2001. The advisory activities of the Executive Sessions will not be included in this report due to restrictions on confidential information. However, the future USPTO budget review is conducted in these meetings, and some of the most productive advice regarding budget issues is discussed in Executive Sessions. To the extent information becomes public, it will be included in future Annual Reports.

The formation of the P-PAC included the appointment of voting members, with three of the members having 1, 2 and 3 year terms, respectively, to stagger the future appointment process. The P-PAC would like to recognize the three members who served one-year terms that expired in July 2001, and who were critical in initiating the activities of the Committee.

- Patricia Ingraham is a distinguished and internationally recognized expert on public administration and a professor at the Alan K. Campbell Public Affairs Institute at Syracuse University.
- Andy Gibbs is an independent inventor and entrepreneur who runs PatentCafe.Com, Inc., and who significantly contributed to the e-Government initiatives.
- Roger May is a patent attorney who headed Ford's intellectual property business and now is involved in consulting on licensing intellectual property.

The P-PAC is currently operating with six voting and three non-voting members, with the nomination process under way to replace the one-year term members.

7 Transcript not yet available.

BUDGET

In the 2000 Annual Report, this Committee reported after a brief review of the budget process that there is a crisis at the USPTO that will adversely and seriously impact future operations and the quality of the issued patents. After an opportunity to review a full year of the budget cycle, the concern is even greater due to the lack of adequate funding and the increase of almost 12% in patent applications filed in 2001 over 2000. This increase came even when there was an economic slowdown. One basic problem is that the USPTO does not get to keep all of the fees users pay for patent services. In Fiscal Year 2001, \$1,152 million was collected in fee income at the USPTO. The 2001 enacted budget allocated only \$1,037 million to the USPTO. The USPTO does not receive a full appropriation equal to the user fees it collects.

Since 1992, \$617 million in USPTO fee collections have either been diverted or not provided to the Office in the year they were earned. This includes \$233.5 million of the fees that were collected but not appropriated back to the USPTO under the Omnibus Budget Reconciliation Act; approximately \$82 million that has been rescinded or sequestered; and \$301 million that was collected in fiscal year 2001 but not made available to process the work for which the fees were paid.

The budget crisis impacts two areas most significantly: (1) attracting and retaining patent examiners, and (2) implementation of digital automation to handle examination in a more efficient manner. Currently, the USPTO is evaluating the strategic plan for reducing pendency of patent applications while maintaining the quality of the issued patents and having a fully automated filing and examination system by 2004. Without access to all fees collected in each year, these goals cannot be attained with the current level of filings at the USPTO. If double digit increases in filing continue, there will be a serious increase in pendency far above the current average of 26 months.

The P-PAC supports removing the USPTO from the appropriations process and having a permanent fix to funding such that all fees collected by the USPTO are retained by the USPTO for its exclusive use.

POLICIES AND GOALS

The P-PAC will review the policies and goals together since they are interrelated. The USPTO has the exclusive statutory authority to issue patents and administer other patent functions. Overlayed on the mandated functions are the priorities on how to administer the functions, and particularly the interaction with the USPTO user community **B** its customers. The policies and goals developed by the USPTO not only affect its internal operations but also its users.

The USPTO has developed a Patent Strategic Plan for Fiscal Years 2002-2006. The P-PAC has reviewed this Plan and continued to monitor its implementation in 2001. There are five goals previously reviewed by the Committee. The performance target rated Goal One is "Enhance the Quality of Our Products." The P-PAC continues its support that quality is a priority goal of the USPTO, and at its public meeting resolved that the Director's and USPTO's top priority of putting quality first is supported unanimously by the P-PAC. The enhancement of the quality of issued patents is not a goal that can stand without full funding levels at the USPTO.

The second goal is improvement of the quality of the USPTO's services, which the P-PAC supports, and is closely tied to enhancing the quality of the patents issued. The third goal is optimizing processing time. The P-PAC agrees that processing should be secondary to quality goals, but the severe delays in receiving patents will have adverse consequences. The P-PAC agrees with the USPTO that quality should be the first priority. If there are budget deficiencies, then processing time will increase rather than sacrificing quality. A brief report from the P-PAC subcommittee on Quality is included in this Report.

The P-PAC has concerns that processing delays may create an incorrect public perception of the inability of the USPTO to do its job properly. This is notwithstanding the recent legislation to assure patent terms if there are processing delays in the USPTO. If the funds are not available for both quality of examination and timely examination, the choice for quality examination will be made, and

the issuance of quality patents in a timely manner will suffer. Application processing before allowance consumes 93% of USPTO costs. However, this front-end process brings in only 43% of the fee income. The USPTO relies on issue fees and maintenance fee income from patents previously granted to process applications. An increase in Office cycle time delaying patent issuance and the maintenance fee income stream would have an adverse impact on fee income.

Delay in processing patents, which may extend the life of the patent past the 20 years from the filing date standard term, will impact consumers and businesses alike. There will be a delay in the patented inventions going into the public domain, which will affect future competition. Patents are valuable assets for emerging technologies, such as biotechnology, and start-ups in the Internet field need issued patents in their asset portfolios to attract funding. Some important industries, such as the computer chip technologies, have a relatively short product life. Delay in issuing patents for these industries adversely impacts the market development that comes with patent protection.

The P-PAC has been asked to provide comments on the following rules packages since the formation of the Committee to the end of Fiscal Year 2001:

1. Revision of Patent Fees for Fiscal Year 2002 (RIN 0651-AB01);
2. Rules to Implement Optional Inter Partes Reexamination Proceedings (RIN 0651-AB04);
3. Simplification of Certain Requirements in Patent Interference Practice (RIN 0651-AB15);
4. Treatment of Unlocatable Patent Application and Patent Files (RIN 0651-AB19);
5. Legal Processes (RIN 0651-AB22); and
6. Elimination of Continued Prosecution Application Practice as to Utility and Plant Patent Applications (RIN 0651-AB37).

PERFORMANCE

The P-PAC formed two subcommittees this year to assist in advising the USPTO on performance in

automating the USPTO and quality of issued patents (the third subcommittee, not on performance, is Budget). The following are reports for each subcommittee on the performance objectives.

e-GOVERNMENT SUBCOMMITTEE REPORT

The P-PAC and its e-Government Subcommittee met on a number of occasions with senior staff of the USPTO, including those responsible for the information technology planning. The meetings were all productive as the USPTO presented its intentions for the development or enhancement of electronic filing and file management tools for patents and patent applications.

The e-Government Subcommittee reviewed the plans of the USPTO early in the year and found that the USPTO's approach to digitization of USPTO processes in the filing and paper management areas was dictated by funding concerns at least as much as needs assessment. After further briefing of the entire Committee, the P-PAC suggested that a more accelerated schedule for developing the ability to electronically manage all aspects of the patent application filing and management process is needed. The need arises from a concern about the huge number of files and the vast amount of paper currently in process and anticipated with the unabated growth of patent filings. It also arises from the need for enhanced, speedier communication with applicants and their counsel. More recently, following the events of September 11, 2001, it has become even more desirable that paper transmittals be minimized both to and from the USPTO.

The outgrowth of those meetings and the other work of the USPTO was a greatly enhanced plan for developing needed digitized processes. In particular, the program for producing what is referred to as the Tools for Electronic Application Management (TEAM) project for electronic patent application file management has been advanced from Fiscal Year 2006 to Fiscal Year 2004, a major improvement. Moreover, detailed plans have been developed for actually meeting this improved schedule. Those plans have been audited by an outside vendor (IBM) to ensure their sufficiency and cost-effectiveness.

In short, the USPTO has embarked this year on a program it and its users need to improve USPTO service and efficiency. The success of this program depends heavily upon the will of the U.S. Congress to fund it properly without a harmful stretch-out, as has sometimes been the case in the past. It also depends upon developing immediately a user-friendly electronic filing system that is easy to use and efficient, such that applicants and their counsel will adopt it readily. Further, however, appropriate incentives to foster that adoption must be implemented to help overcome natural public inertia. Absent sufficient and timely adoption of the electronic filing system, the payback period on the TEAM system will be delayed materially.

QUALITY SUBCOMMITTEE REPORT

The P-PAC reaffirmed that quality is and should remain a primary focus of the patent business. Currently, the USPTO is measuring quality through indicators using internal objective data and customer satisfaction data obtained via the annual survey. The objective of using this data is to measure the performance of both the quality of the patents issued and the services rendered to the users of the system. Although this information is helpful, the USPTO and the P-PAC agreed that to improve quality more significantly, the quality index metrics should be comprehensively expanded. The P-PAC is seeking input, internal and external, to create a task force to develop additional quality metrics. Further, it is envisioned that the quality metrics data would be funneled into a single measure, which would then become the indicia for reporting the targets and assessing the success of milestones.

The P-PAC noted that the current quality targets were satisfactory, including the 3% error rate, which would be the lowest achieved in the 25 years since records have been kept. Meeting 80% customer satisfaction by Fiscal Year 2006 is on par with world-class service organizations.

The discussion also acknowledged that, while timeliness is also a focus, any of the initiatives implemented to meet the timeliness measures should not deter achieving the quality targets. That is to say, the quality of the issued patents is critical for sustaining U.S. economic growth, as well as

contributing to the U.S. maintaining a leading edge in intellectual property worldwide.

USER FEES

At the February 28, 2001, meeting, a report on Study of Alternative Fee Structures was presented, which was mandated by the AIPA to "conduct a study of alternative fee structures that could be adopted . . . to encourage maximum participation by the inventor community in the United States."⁸ The full study is not scheduled to be completed until December 2001. At the February 28, 2001, meeting, the P-PAC reviewed the study results to date and provided comments.

One issue that was discussed is the approximately one-third of applications that are abandoned after expending effort that is not cost recouped. The filing fee is only a small percentage of the fees necessary to recover the cost of examination and issuance. The P-PAC also commented that the system should be open to all potential participants but not affect the quality of the end product issued patent. Also, some participants may be discouraged from obtaining patents because of the pendency length. A fee for expedited processing may encourage more users.

The P-PAC also commented on the increase in fees due to the Consumer Price Index (CPI). The patent fees are adjusted each year based on the CPI. At least one Committee member objected to an increase based on the CPI if there is a continued diversion of USPTO fees in the Federal budget.

CONCLUSION

The P-PAC has in the last year participated in an advisory role in the acceleration of the plan for electronic filing and processing of patent applications and developing more standards for measuring and improving quality. These activities are ongoing and will be part of next year's agenda. The P-PAC has reviewed the proposed budgets for Fiscal Years 2002 and 2003.

The P-PAC looks forward to continuing to fulfill its role as advisor to the USPTO for patent operations in the next fiscal year.

⁸ AIPA, 35 U.S.C.