Advocacy: the voice of small business in government

August 3, 2006

Christina T. Donnell
Senior Petition Attorney
Mail Stop Comments— Patents,
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

RE: Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations; 71 Fed.Reg. 38388 (July 6, 2006).

Dear Ms. Donnell:

The Office of Advocacy (Advocacy) of the U.S. Small Business Administration (SBA) offers this comment in response to the U.S Patent and Trademark Office's (USPTO) request for comments in the above captioned matter. USPTO's notice would take the existing SBA size standard currently used for paying reduced patent fees[1] and broaden its application for use in all of the agency's Regulatory Flexibility Act[2] (RFA) analyses.

Advocacy supports and commends the USPTO for its efforts to identify an appropriate size standard to ensure agency compliance with the RFA. Advocacy believes determining the right size standard is important, especially given the potential impact of USPTO's regulations on small entities. Although Advocacy supports the USPTO's efforts, we question whether the proposed size standard is appropriate for use in all of the agency's RFA analyses.

Background on the Office of Advocacy

The Office of Advocacy, created in 1976, monitors and reports on agency compliance with the Regulatory Flexibility Act of 1980 (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).[3] The RFA requires federal agencies to determine a rule's economic impact on small entities and consider significant regulatory alternatives that achieve the agency's objectives while minimizing the impact on small entities. Because it is an independent office within the SBA, the views expressed by the Office of Advocacy do not necessarily reflect the views of the SBA or the Administration.

[1] 13 CFR §121.802 *See also* 37 CFR §1.27.
[2] Pub. L. No. 96-354, 94 Stat. 1164 (1980), (codified as amended at 5 U.S.C. §§ 601-612).
[3] *Id.*

PAGE 2/4 * RCVD AT 8/3/2006 3:18:31 PM [Eastern Daylight Time] * SVR:USPTO-EFXRF-6/44 * DNIS:2737735 * CSID:202 205 6928 * DURATION (mm-ss):01-08

On August 13, 2002, President George W. Bush signed Executive Order 13272, requiring federal agencies to implement policies protecting small businesses when writing new rules and regulations. In accordance with Executive Order 13272, Advocacy may provide comment on draft rules to the agency that has proposed a rule, as well as to the Office of Information and Regulatory Affairs (OIRA) of the Office of Management and Budget.[4] Executive Order 13272 requires agencies to give every appropriate consideration to any comments provided by Advocacy. Under the Executive Order, the agency must include, in any explanation or discussion accompanying publication in the *Federal Register* of a final rule, the agency's response to any written comments submitted by Advocacy on the proposed rule, unless the agency certifies that the public interest is not served by doing so.[5]

Background on the Proposed Size Standard

The Office of Size Standards within the SBA establishes small business definitions (i.e., size standards) based on the type of industry in which a small business operates. The industries are identified in the North American Industry Classification System (NAICS)[6] codes. The NAICS codes are listed by industry and provide a size standard either by number of employees or by annual receipts.

In their RFA analyses, agencies must describe and estimate the number of small entities regulated to ascertain the potential economic impact on small entities.[7] The RFA directs federal regulatory agencies to utilize SBA size standards which are based on the NAICS codes to conduct analyses. More importantly, the size standards assist agencies in calculating the number of small entities that are affected by their rules.

The SBA, in coordination with the USPTO in the 1980's, established a general size standard for paying reduced patent fees.[8] Since patent applicants were from every potential industry, a single size requirement helped to facilitate the patent application process. The general size standard was intended only for use in determining whether an entity was a small business concern for purposes of paying reduced patent fees. Now, for the first time, the USPTO is taking steps to adopt the size standard officially for RFA purposes.

Small Entity Concerns

On July 19, 2006, Advocacy convened a regulatory roundtable to discuss the USPTO's proposed size standard. Participants at the roundtable included industry personnel representing the interests of small businesses and independent inventors, USPTO personnel, representatives from the SBA Office of Size Standards, and Advocacy. During the roundtable, small entity representatives expressed reservations about the proposed size standard. They indicated that the standard would exclude a

[4] E.O. 13272, at § 2(c), 67 Fed. Reg. at 53,461.
[5] *Id.* at § 3(c), 67 Fed. Reg. at 53,461.
[6] 13 CFR §121.201.
[7] 5 U.S.C. § 603(b)(3).
[8] 13 CFR §121.802 *See also* 37 CFR §1.27.

PAGE 3/4 * RCVD AT 8/3/2006 3:18:31 PM [Eastern Daylight Time] * SVR:USPTO-EFXRF-6/44 * DNIS:2737735 * CSID:202 205 6928 * DURATION (mm-ss):01-08

significant number of small entities. Further, they were concerned that the standard would not provide an accurate estimate of the number of small entities affected by the USPTO's regulations.

Currently, patent applicants must claim small entity status by checking a box on their patent application. However, small entity representatives informed Advocacy that entities often choose not to claim small entity status for a variety of reasons. USPTO data systems track the number of patent applications that claim small entity status. The agency then uses the numbers to estimate the number of small entities affected by its rulemakings. The agency does not collect data on or count the specific entities that are submitting a patent application. As a result, the data collected by the USPTO does not provide an accurate estimate of the number of small entities affected by the agency's rules. Since the proposed size standard only tabulates the number of applicants claiming small entity status, and not actual small entities, Advocacy does not believe that it is the appropriate size standard for RFA purposes.

Conclusion

Advocacy appreciates the USPTO's challenge in identifying an appropriate size standard for RFA purposes. We agree with the agency's decision to request public comment on the proposed size standard. However, we urge the USPTO not to adopt a size standard that would adversely affect small entities. The proposed standard will not facilitate the USPTO's compliance with the RFA since it will not adequately estimate the small entities affected by the agency's regulations. Advocacy suggests that the agency continue to work with our office to identify a more appropriate standard after reviewing public comments on the proposal.

Should you have questions or require additional information please contact me or Carrol Barnes of my staff at (202) 205-6533.

Sincerely,

Thomas M. Sullivan
Chief Counsel for Advocacy

Carrol L. Barnes
Assistant Chief Counsel for Advocacy

cc: Mr. Steven D. Aitken, Acting Administrator,
Office of Information and Regulatory Affairs, Office of Management and Budget

PAGE 4/4 * RCVD AT 8/3/2006 3:18:31 PM [Eastern Daylight Time] * SVR:USPTO-EFXRF-6/44 * DNIS:2737735 * CSID:202 205 6928 * DURATION (mm-ss):01-08 TOTAL P.04