

MEMORANDUM

TO: Lila Feisee
Biotechnology Industry Organization

FROM: G. Lee Skillington *G. Lee Skillington*
David A. Steffes

RE: Analysis of Proposed Fee Legislation

DATE: July 17, 2002

I. Introduction

In connection with its “21st Century Strategic Plan,” the U.S. Patent and Trademark Office (Office) proposed legislation to increase and realign patent fees for four reasons.¹ First, the Office wants changes that will allow it to implement measures to reduce the work that they must do (*e.g.*, to accommodate the proposed deferred examination provisions and to shift the burden of searching patent applications to other entities). Second, the Office wants to restructure fees so they more fairly reflect the cost of providing the services requested by the applicant (*e.g.*, those who file applications that are more complex should pay more). Third, the Office wants to restructure fees to encourage applicants to file short, easy to process applications rather than longer, more complex applications filed in high-technology areas such as biotechnology and to change other behavior patterns of applicants. Fourth, the Office wants to raise the level of fees per application or service to maintain the current level of income as requests for service decrease.

The Office believes that it would collect the same amount of money in fiscal year 2003, under its proposal, as it would under the current system – it merely would collect it in a different way. But, if the proposal and associated plans were adopted, the Office would not “search” patent applications – a major portion of the current cost of examining a patent application. Instead, the applicants or other patent offices would bear this responsibility. Therefore, the Office would in theory collect the same amount of money for less work performed, unless they provide a rebate on the proposed examination fee. The Office would thus have additional resources to allocate to the examination of complex applications and to the reduction of backlogged applications.

Applicants, however, will have new costs associated with obtaining a “search” that are not reflected in the fees charged by the Office. Therefore, the total increase in costs by the applicant will not be apparent from merely reviewing the proposed fees.

¹ Both the Strategic Plan and the fee bill are posted on the USPTO web site at www.uspto.gov/strat2001.

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This Memorandum explains the major provisions of the proposed legislation and compares the costs of filing an application under the current system and the proposed system.

II. Changes to the Fees to Obtaining Patents

Section 2(a) of the proposed legislation would amend most of the provisions of subsection 41(a) of title 35 of the United State Code, which specifies the fees associated with obtaining a patent.

Filing Fee

At present, large entity applicants pay a base "filing fee" of \$740.² Payment of this fee entitles an applicant not only to file their application with 20 claims, including three independent claims, it entitles them to a search and examination by an examiner at the U.S. Patent and Trademark Office. Currently, this fee is reduced by fifty percent for small entities.³

The proposed filing fee would be reduced to \$300 for large entities (\$150 for small entities), but the fee no longer entitles applicants to either a search or examination. Under the Plan, searches would not be undertaken by the U.S. Patent and Trademark Office. Rather, examiners would rely on searches undertaken in other patent offices, submitted by the applicant, or obtained by the Office from its contractors. Applicants would pay for these searches through fees to the other offices or private searchers. The proposal does not require private searchers to extend a subsidy to small entities.

To obtain an examination, the applicant would have to request examination in writing within a specified period of time (deferral period) and submit an additional fee of \$1250.⁴ The Director of the U.S. Patent and Trademark Office (hereinafter "Director") may reduce this fee for independent inventors but is not required to reduce it to 50 percent as is done currently. The Director is not permitted to reduce this fee for small businesses or nonprofit organizations such as universities. In addition, the Director may reduce this fee for any applicant who provides a search report that meets the criteria to be specified by rule. The Director has not yet clarified what these criteria are and what reduction is anticipated, if any.

In the proposal, the new filing fee and the new examination fee would become effective on 1 October 2002⁵ with respect to all applications filed after that date. It appears that applications filed before that date will not be subject to deferred examination and the examination fee.

A number of other fees associated with filing would be increased. The following table compares the fees under the current system with those of the proposed legislation, including only those fees that are substantially increased or newly proposed by the current legislation.

² 35 U.S.C. 41(a)(1)(a) as adjusted in accordance with 35 U.S.C. 41(f).

³ 35 U.S.C. 41(h). Small entities are independent inventors, small businesses, and nonprofit organizations.

⁴ Specified in Proposal Subsection 41(a)(4)

⁵ Proposal Subsection 4(a)(1).

	Current Fee Schedule	As Proposed
Utility filing fee	740.00	300.00
Request for examination fee	--	1,250.00 ⁶
Issue fee (utility)	1,280.00	1,660.00
Maintenance fees (total)	6,000.00	8,900.00
1-month extension	110.00	140.00
2-month extension	400.00	660.00
3-month extension	920.00	1,860.00
4-month extension	1,440.00	3,060.00
Appeal fee	320.00	520.00
Appeal brief	320.00	1,730.00
Oral hearing	280.00	460.00

Deferred Examination

As mentioned, the proposed subsection 41(a)(4) of title 35 authorizes “deferred” examination. That is, an applicant must pay a filing fee (for applications other than provisionals and design applications), but then can delay examination of that application for a specified period by withholding payment of a separate “examination fee.” The bifurcated filing and examination fee system is designed to provide an applicant with time in which to determine whether a claimed invention has commercial viability. Accordingly, if, within the prescribed period, an applicant questions the commercial viability of an invention, it will not pay the examination fee, and the PTO will be relieved of examining the application. Thus, the total number of applications examined by the Office would theoretically decrease and the Office could divert resources to applications with commercial potential.

Proposed subsection 41(a)(4) of title 35 would give the Director discretion to set the deferral period and to impose other conditions on deferred examination by rule. Initially, however, the transitional provisions generally provide that the period will be 18 months as of 1 October 2002 and will remain so until the Director promulgates a rule to the contrary.⁷

The economic benefits of deferred examination depend on the deferral period. For example, most biotechnology and pharmaceutical companies patent many inventions that may

⁶ This fee is not reduced for small-entities. Proposal Subsection 4(b)(3)(A).

⁷ Proposal Subsection 4(b)(3)(A).

not ultimately be commercially viable. They will not be able to determine viability, however, for four or five years after the filing date, if then. Thus, a short period such as 18-months will not provide benefits, but a longer period could decrease costs. Without details, it is impossible to assess the benefits of deferred examination under this proposal.

Charges Based on Number of Claims and Length of Application

More claims in an application generally translates into more work for the examiner. While the amount of work to examine each claim may vary with the complexity of the claim, the claims do not get more difficult to examine as the total number of claims increases. Stated differently, the time it takes to examine one independent claim is equivalent, on average, to the time it takes to examine other independent claims. Similarly, longer applications generally take more time to examine than shorter applications.

Proposed § 41(a)(2), like its predecessor, requires the PTO to place a surcharge on applications that contain more than three independent claims or a total of more than 20 claims (including dependent and independent claims). The proposed fee regime, however, would impose charges that would increase geometrically as the number of claims increases beyond the prescribed limits. For example, under proposed subsection 41(a)(2)(A) the fee for a 4th independent claim would be \$160, the fee for the 5th independent claim would be \$320, and the fee for the 6th independent claim would be \$640. After the 6th independent claim, additional independent claims would cost an applicant 125 percent of the charge for the previous independent claim. Accordingly, the 7th independent claim would cost \$800 and the 8th independent claim would cost \$1000.

Additionally, under proposed subsection 41(a)(2), the surcharge for each claim (independent or dependent) in excess of 20 claims would increase geometrically for each interval of five beyond the 20-claim limit. For instance, the surcharge for 21-25 claims would be \$80, the surcharge for 26-30 claims would be \$160, the surcharge for 31-35 claims would be \$320, and the surcharge for 36-40 claims would be \$640. After the 40th claim, the surcharge for each set of 5 claims would be 125 percent of the prior surcharge. Accordingly, for an application with 41-45 claims the surcharge would be \$800, and one with 46-50 claims would be \$1200.

It is important to note that these surcharges apply to all applications that are filed or pending as of the October 1, 2002.⁸ Thus, the Office would be required to reassess all pending applications and impose retroactive surcharges.

Under the current statutory scheme, the filing fee is the same regardless of the number of pages in the application. Proposed subsection 41(a)(1) would, however, require an applicant to pay a surcharge for filing an application whose "specification and drawings exceed 50 sheets of paper (or equivalent as prescribed by the Director if filed in an electronic medium)." It is not clear in the legislation whether this is a one-time surcharge, or whether the charge will be applied to each increment of 50 pages over the initial 50-page limit. Nor is it clear whether the

⁸ Proposal Subsection 4(a)(1).

legislation will apply to applications that contain DNA sequence listing.⁹ No specific fee has yet been suggested.

The surcharge on the number of sheets in the application could apply to all applications filed after 1 October 2002.¹⁰ The surcharges, however, would not take effect until 30 days after the Director promulgates a rule setting the fee and the conditions for charging it.¹¹ While the drafters may have intended to exempt all applications before that date from the surcharge, the provision is not clear whether the surcharge would be applied retroactively to applications filed after 1 October 2002 but before entry into force of the surcharge.

Surcharges for Related Applications

Applicants must file their applications soon after an invention is conceived or reduced to practice, but often development of the invention continues. Frequently, there are valuable improvements or related inventions, so applicants file additional applications to "cover" these developments. Sometimes the original and subsequently-filed applications overlap. The patent system accommodates this practice by allowing applicants to reference earlier applications and claim the benefit of the earlier filing date of those applications. The law, however, only permits one invention per application. When one invention of an inventor overlaps or is "patentably indistinct" from another in a separate application, the overlap is referred to as "obviousness-type double patenting" and is prohibited. Examiners routinely reject claims on the grounds of obviousness-type double patenting and often applicants file a "terminal disclaimer" to overcome such a rejection. A "terminal disclaimer" limits the term of the second patent to that of the earlier filed patent, thus curing the problems related to double patented. Currently, there is no charge assessed in applications that contain double patenting rejections nor are charges currently assessed in patent applications based on the type of rejections that are made by an examiner.

Also, applicants often develop many compounds or products at once. It is often difficult to determine whether these products are one invention or several. Only one invention is permitted in each application, however. If the applicant claims more than one invention in an application, he or she can divide the original application into various applications that can all claim the benefits of the filing date of the original application. Under the current system, there are no charges for claiming the benefits of an earlier filing date.

Under proposed subsection 41(a)(3) the PTO would be authorized to assess a surcharge in any application that claims priority to an earlier filed application or one that contains claims that are subject to an obviousness-type double patenting rejection. Proposed subsection 41(a)(3)(A) and (B) provides that a surcharge shall be assessed for an application that 1) "contains or is amended to contain a specific reference to an earlier filed application or applications under 35 U.S.C. §§ 120, 121, or 365(c)," or 2) "contains or is amended to contain

⁹ Such applications often contain hundreds of pages.

¹⁰ Proposal Subsection 4(a)(1).

¹¹ Proposal Subsection 4(a)(3).

claims that are not patentably distinct from one or more claims in another pending application or patent.” “Patentably distinct” has the same meaning as it does in the context of obviousness-type double patenting, that is, the claims in an application are subject to an obviousness-type double patenting rejection.

The proposed legislation provides that the surcharges in both cases will be set by the Director, presumably through rulemaking. While the proposal does not set forth the permanent amount of such surcharges, the transitional provisions set out the surcharge to be applied between 1 October 2002 and the effective date of the rule setting the surcharge in applications that contain references to earlier filed applications.¹² This transitional surcharge would start at \$1,000 for one to three priority claims, increase to \$2,000 and \$4,000 for four and five priority claims, respectively, and escalate \$8,000 for every claim over five. It is highly likely that this surcharge would be adopted by the Director. Also, the Section-By-Section Analysis accompanying the proposed legislation provides that the amounts set by the Director should encourage applicants to complete prosecution in fewer than three continuing applications as is done in the transitional surcharge.¹³

It should be noted that proposed subsection 41(a)(3) enters into force on 1 October 2002 with respect to all applications pending on or filed after that date.¹⁴ Thus, the Director will be required to assess the “transitional” surcharge on all applications pending on that date.

In relation to applications containing patentably indistinct claims, the transitional provisions set out the surcharge to be applied between 1 October 2002 and the effective date of the rule setting the surcharge.¹⁵ The surcharge would be \$10,680 if the claims in one application were patentably indistinct from claims in one other application. If the claims are patentably indistinct from the claims in two or more applications, the amount increases to \$13,350. Again, these fees are likely to be adopted by the Director through rulemaking. In addition, the Section-by-Section analysis provides that the surcharge should encourage applicants to include all claims to patentably indistinct inventions in one application despite the penalty fees for excess claims set forth in subsection 41(a)(2). The Section-By-Section analysis does provide one indirect limitation regarding establishing the surcharge by stating that the fee is intended to modify an applicant’s behavior and is not meant simply to generate revenue for the PTO.

Determination of Extension Periods

Under the current system, the term of a patent may be extended to compensate for delays in obtaining a patent caused by the Patent and Trademark Office or for enumerated reasons. Proposed section 3 provides that the patent term adjustment periods under §§ 154(b)(1)(A) and

¹² Proposal Subsection 4(b)(1). The surcharge would not become effective until 30 days after it is published in the Federal Register as provided in Proposal Subsection 4(a)(3).

¹³ Paragraph 1, page 3 of the Section-By-Section Analysis.

¹⁴ Proposed Subsection 4(a)(1).

¹⁵ Proposal Subsection 4(b)(2)(A-D).

154(b)(1)(B) for PTO delay would be measured from the date that the examination fee under proposed 35 U.S.C. 41(a)(4), not the date of filing under current law.

Effective Date of the Proposed Legislation

As set out in Section 4 of the proposal, the effective date of the proposed bill is October 1, 2002. Section 4 also sets forth the effective date of the amendments for each of 1) Section 2 (surcharges for related applications and number of claims and length of application), 2) Section 3 (determination of extension period), 3) the surcharge provided for in § 41(a)(1)(G) (length of specification), 4) the surcharge provided for in § 41(a)(3) (related application surcharge), and 5) the time period and conditions prescribed by the Director under § 41(a)(4) (deferred examination). Each of these special effective dates were discussed in their corresponding section above.

III. Comparisons of Fees Under Current USPTO Fee Schedule and As Proposed by the Fee Legislation

1. Standard Application

No more than 3 independent and 20 total claims; no priority claims; no double patenting issues; no extensions to respond to Office actions; large entity

	Current Fee Schedule	As Proposed
Utility filing fee	740.00	300.00
Request for examination	—	1,250.00
Publication fee	300.00	300.00
Issue fees	1,280.00	1,660.00
Maintenance fees (4/8/12)	6,000.00	8,900.00
Total	\$ 8,320.00	\$ 12,410.00

2. Typical Continuation or Divisional Application expanding coverage of patent granted on parent

6 independent and 35 total claims; priority claims to 3 prior applications; double patenting issues with 2 other applications or patents; 1-month extension to reply to restriction requirement; 2-month extension to reply to first action; 3-month extension with Notice of Appeal to respond to final action; large entity

	Current Fee Schedule	As Proposed
Utility filing fee	740.00	300.00
Excess claim fees	522.00	3,920.00
Surcharge for priority claims	—	1,000.00
Surcharge for claim conflicts (double patenting issues)	—	13,350.00
Request for examination	—	1,250.00
Publication fee	300.00	300.00
Extension fees	1,430.00	2,660.00
Notice of Appeal	320.00	520.00
Issue fees	1,280.00	1,660.00
Maintenance fees (4/8/12)	6,000.00	8,900.00
Total	\$ 10,592.00	\$ 33,860.00