POPA NEWS
Patent Office Professional Association
April 2003 Vol. 03 No. 3

# USPTO Offers Empty Pledges on Fee Diversion and Pilot Programs

Two patent community organizations testifying before Congress in early April supported the USPTO's Revised 21st Century Strategic Plan in exchange for hollow administration assurances of continued decreased fee diversions and adequate testing and examination of the plan before implementation.

As proof of the administration's intent to decrease fee diversions, representatives of the Intellectual Property Owners Association (IPO) and the American Intellectual Property Law Association (AIPLA) both cited in their testimony a March statement by Commerce Secretary Donald Evans: "To support technology innovation and provide for intellectual property protection, the Department is working to eliminate the practice of using USPTO revenues for unrelated federal programs."

AIPLA Executive Director Michael Kirk stated that AIPLA's support for the strategic plan is "based upon the assumption that the Bush administration would effectively address the issue of diversion, noting that our members would insist that we strongly oppose any proposed fee increase that does not include an appropriate solution to diversion."

However, he went on to note that, "... the president's budget does not recommend an end to diversion, and executive branch officials have not set any date for eliminating diversion...."

POPA also observed this lack of commitment on fee diversion. "There is not a single provision in the agency's proposals that would put an end to the continued diversion of USPTO fee income through the appropriations process," testified POPA President Ronald Stern. "Any belief by some that passage of this bill will induce appropriators to reduce the amount of fee diversion is not based upon any written commitment or even the oral commitment of those responsible for appropriations."

The administration has proposed a fiscal year 2004 fee diversion level of $100 million, down from its proposed FY2003 fee diversion level of $162 million. This is based on USPTO fee collection estimates. The actual fees collected tell a different story. The projected actual FY2003 fee diversion – representing the difference between the congressional USPTO appropriation and actual fees collected – will only be $21.8 million. In FY2002, the actual fee diversion was $22.2 million. In FY2001, it was $45.6 million. In comparison, diverting $100 million as the administration proposed would represent a huge increase.

The proposed $100 million diversion would also return the diversion level to what it was approximately in 1997. The fee diversion level averaged less than half of $100 million between 1992 and 1997.

**The hearing on the USPTO's revised Strategic Plan before the House Judiciary Subcommittee on Courts, the Internet and Intellectual Property included four witnesses: (from left to right) Ronald Stern for POPA, John Williamson for IPO, Michael Kirk for AIPLA and James Rogan for the USPTO.**

## Testing and Evaluation Paradox

IPO and AIPLA supported testing of the strategic plan before its widespread use. "Where appropriate, pilot projects should be completed before office-wide introduction of new procedures," stated IPO President John Williamson, later adding, "we support the outsourcing initiative provided there is adequate testing and evaluation...."

AIPLA also backed "full implementation of the PTO's 21st Century Strategic Plan, following successful testing and pilot projects," said Kirk. But he later added, "AIPLA strongly believes that the revised fee bill should become effective October 1, 2003."

With a USPTO-proposed implementation date five months from now, and with no pilots underway, proper testing before the suggested launch date is impossible.

## Separating Search and Examination Harms Quality

Outsourcing the search function will hurt patent quality. "Examiners' expertise is continuously refreshed through the significant amount of time examiners spend searching the patent and non-patent literature in their assigned area of

*(continued on page 2)*

# Empty Pledges on Fee Diversion and Pilot Programs

*(continued from page 1)*

technology," testified Stern. "The expertise of examiners will be diminished rather than enhanced by separating the search from examination. This will reduce the quality of patent examination."

Private sector searchers will not be as qualified to search as patent examiners, who are specialists in a relatively narrow area of technology. Commercial searchers will most likely be generalists because there is only one USPTO but there will be multiple, competing search firms. Only the USPTO will have the volume of work to allow the current level of examiner specialization. In addition, only the USPTO has certain search resources, such as a set of foreign patents prior to 1995 that have been classified according to the U.S. Patent Classification system. Most importantly, examiners are knowledgeable in patent law and thus trained to identify references that can be legitimately combined under the law.

Rogan also recognized that separating search and examination is undesirable. As he said in a town hall meeting with employees in September 2002, "...in a perfect world, we wouldn't be looking at undergoing such radical changes...." He repeated this sentiment at the congressional hearing. He then went on to explain that the reason for the new plan is that congressional appropriations committees are demanding that the USPTO increase examination efficiency.

During the question and answer session of the House hearing, Rogan said that European Patent Office President Ingo Kober in a letter stated that EPO's current change to combining search and examination was done only for efficiency, not for quality. "They did it for productivity reasons," said Rogan. This is an inherent admission that combining search and examination in one job is more productive. The money then saved through this efficiency can be used to increase quality by hiring more examiners and giving them more resources.

Many in the patent community place a higher priority on quality than on speedy throughput. "High patent quality is even more important than short patent pendency," stated Williamson at the hearing.

Combined search and examination gives the best value. It is possible to get high quality at a cost-effective price.

### Who will update searches?

With the total outsourcing of searching, the USPTO intends to disallow all search time and tools for examiners. An intrinsic aspect of examination is the ability to update searches and deal with revised claim subject matter. Stripping examiners of all search time will reduce the quality of patent examination by forcing decisions to be based solely on the original search. Patent examiners will not be able to determine if a search is "complete" without conducting searches themselves. They will not be able to conduct supplemental searches as appropriate when the very search tools they use today are no longer available or properly maintained. They will be held ultimately responsible in each case, but they will not be allowed the necessary tools to perform their duties.

Last July, AIPLA's Kirk agreed. Commenting on the USPTO's first strategic plan, Kirk then stated, "the ultimate responsibility in each individual case must rest with the PTO examiner, to ensure that the search is complete in the first instance and to conduct supplemental searches as appropriate as the claims in the application are modified as the application advances through the examination process." However, AIPLA now supports outsourcing the search function.

### Proposed Three-year Sunset Provision

AIPLA and IPO both strongly support a simple "sunset" provision "that would automatically revert the revised fee schedule to the current fee schedule after three years unless extended by the Congress," testified Kirk. "This would give the PTO and the [Commerce Department] three years to continue the effort they have initiated to reduce and/or eliminate the diversion of PTO fee revenues in the president's budget."

"A sunset provision would give PTO managers a strong incentive to achieve measurable goals on schedule," suggested Williamson.

In answering a question at the hearing about this provision proposed by IPO and AIPLA to authorize the new fee structure for three years only, USPTO Director James Rogan showed the administration's lack of commitment to an end to fee diversion. "Whether diversion ends one day or doesn't end, we still have a backlog of a half-million cases going to a million," he said.

USPTO won't be able to improve, "without the predictability of having fees," added Rogan, which meant increased fees.

### Don't Allow the USPTO Director to Set Search Fees

The USPTO's proposed new fee structure would allow the agency to recover its annual average search cost by enabling the director to set the search fees each year. This is tantamount to granting the director a blank check that would be paid each year by patent applicants.

Both Kirk and Williamson opposed this facet of the legislation and urged that the new fees for searches be set by Congress, as is the case with other patent fees.

"After fee-setting was reviewed during hearings on the American Inventors Protection Act, Congress retained its fee-setting authority for the fees now in the statute," stated Williamson. "We believe this authority provides a desirable system of 'checks and balances.'"

Based upon the USPTO's budget request for FY2004, search costs are expected to rise from $500 initially to over $800 per case by FY2008. That amount is greater than the current large-entity basic filing fee of $750.

*(continued on page 3)*