

## Adequately Funding The USPTO: A Critical Problem That Must Be Solved

**A**s the 111th Congress considers patent reform, one of the fundamental problems facing our lawmakers is how to adequately fund the USPTO. The problem can be crystallized by referring to a single sentence in the final 2010 appropriations bill passed by Congress:<sup>2</sup>

“The decision to rely solely on fee income has removed USPTO from the safety net of the appropriations process and has placed it at the mercy of the economy; it has allowed USPTO to build a boom time infrastructure that it cannot support in an economic downturn.”

The 2009 and 2010 budget cycle is a case study in confirming the Appropriators’ statement. In 2009, Congress appropriated \$2.01B to the USPTO *provided* that amount was collected in user fees. With a growing backlog of unexamined patent applications and Information Technology (IT) systems in serious need of repair, the USPTO began hiring patent examiners and working to improve IT systems under the assumption that the fee collections would materialize. Additionally, the previous several years were a “boom time” in terms of increasing fee income and full access to that income. The USPTO was able to build up the patent examining staff from roughly 3,500 examiners in 2005 to over 6,000 examiners in 2008 in an attempt to reduce the backlog of applications. Obviously this increase in staffing caused a substantial increase in expenditures (examiner’s salaries). This

was the “boom time” infrastructure referred to by Congress.

Over roughly the same time the USPTO was building up examining staff, the traditional percent of applications that were allowed as patents dropped sharply. As can be seen in Figure 1, there was a dramatic drop in allowance rate from the previous 30-year average of 60-70% to 42%.

One impact of the drop in allowance rate is that the base

resulting in a relatively smaller base for maintenance fee collections.

Then the 2009 economic downturn hit. Corporate IP budgets were frozen or cut and hard choices had to be made. Industry had to decide whether to file fewer new applications or let some applications in their patent portfolio lapse by not paying maintenance fees. This economic downturn, coupled with the reduced allowance rate and smaller base on which main-

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of issued patents on which maintenance fees are due was not increasing. The USPTO relies heavily on the payment of maintenance fees from patent owners to subsidize the examination of newly filed applications. The use of a maintenance fee system allows the USPTO to keep filing fees low (below the actual cost of examination) so that innovators can seek patent protection relatively inexpensively and those patent owners who do receive patents subsidize the process for others. Post-allowance fees account for over 50% of the USPTO revenue. Figure 2 illustrates the huge gap that developed between the number of new applications being filed and the number of patents being issued

tenance fees were due, caused a \$136 million shortfall in collections in 2009. Hiring stopped, IT infrastructure improvements stopped, and Congress was forced to pass emergency legislation allowing trademark fee collections to fund patent expenses to avoid patent examiner furloughs.<sup>3</sup>

As the 2010 budget year approached, the USPTO estimated 2010 fee income would be \$1.88

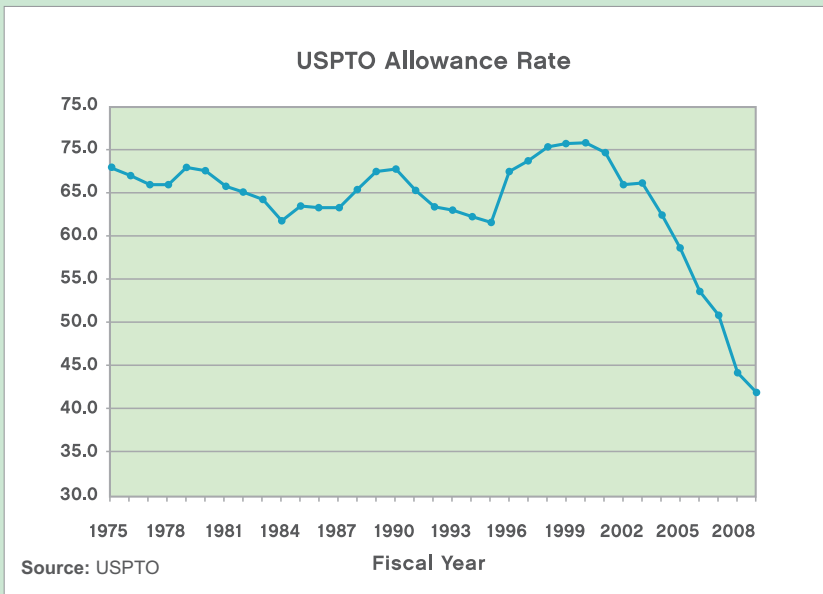
1. Mr. Godici is the former Commissioner for Patents (2000-2005) at the United States Patent and Trademark Office (USPTO). He also served as Acting Under Secretary of Commerce for Intellectual Property and Director of the USPTO from January 20, 2001 to December 2001.

2. House Report 111-366, Appropriations Act, at 620, (2010).

3. This safety net legislation was never triggered because of further spending cuts implemented in the patent process.

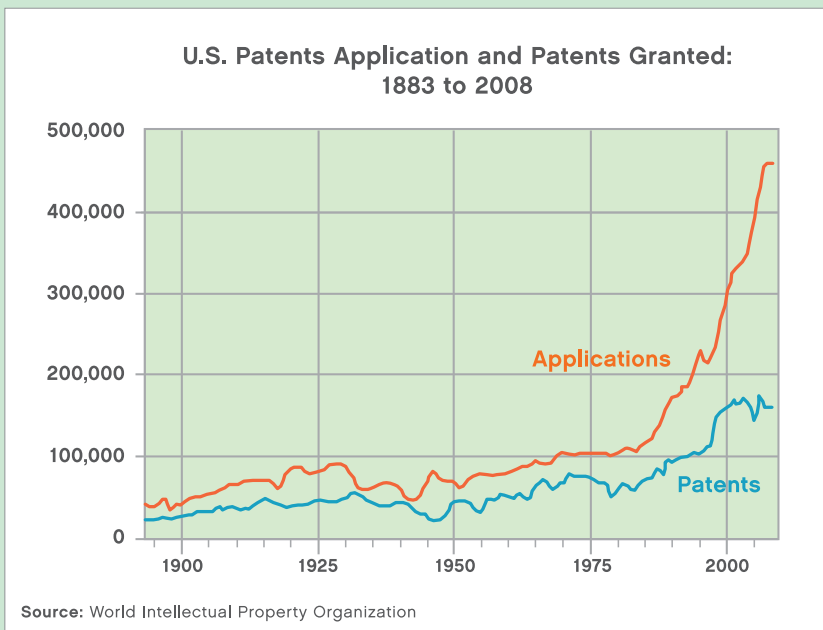
**Figure 1.**

The Patent Allowance Rate by fiscal year. The Allowance rate is defined as the number of allowances in the year as a percentage of all disposals in that year.



**Figure 2.**

Number of U.S. patent applications and patent grants by calendar year.



billion or just slightly more than the actual collections in 2009. Congress enacted the 2010 appropriations bill at the \$1.88 billion level. As the economy picked up in the fall of 2009 and into 2010, it now appears that the USPTO may collect in excess of \$200 million above the appropriated amount. This \$200 million in user fees collections will not be available to the USPTO and it appears that “fee diversion” may be an actuality again in 2010. It is likely that over \$200 million in fees paid by patent applicants and patent owners will not be put to use by the USPTO. In the past, fee diversion has been referred to as a tax on innovation.<sup>4</sup>

These circumstances that have developed over the last several years point out the flaws in the current user fee funding model at the USPTO. The uncertainty associated with the appropriations process, the inability to adjust fees to match the actual cost of the examination process and the substantial reliance on maintenance fee payments to subsidize the examination of newly filed applications have created something of a “Ponzi-esque” system. Because of the huge backlog of unexamined applications, fees that are paid today are used to fund the examination of applications that were filed 2-3 years ago. The substantial reliance on downstream maintenance fees to fund current work adds to the problem.

What solutions are being considered by Congress in the patent reform legislation? Both H.R. 1260 and S. 515 include a provision that would allow the USPTO to set its own user fees as opposed to the current law which requires

<sup>4</sup> Over \$700 million of USPTO user fees were diverted between 1991 and 2004 resulting in a backlog of unexamined patent applications.

Congressional action to adjust fees. The current provision in both bills would have considerable oversight and involvement by the public, the Patent Public Advisory Committee and the House and Senate Judiciary Committees. However, the USPTO would ultimately have the ability to adjust fees based on their analysis of the costs of providing their services. This is a big step in the right direction.

Of course the obvious question highlighted by the 2010 fee diversion reality is: will the USPTO be able to *keep* the revenue generated by any fee adjustment (increase) or will the income be diverted away from the USPTO? Neither H.R. 1260

nor S. 515 addresses the fee diversion issue.

Additionally, initiatives to improve timeliness and quality of the patent examination process by hiring and adequately training examiners and rebuilding the IT infrastructure are not single year projects but multi-year programs. The USPTO needs to have multi-year funding through a revolving account to build an operating reserve so that multi-year improvement plans are assured of funding and the “Ponzi-esque” funding model is ended.

The original drafters of our Constitution recognized the benefits of the patent system; to encourage innovation and economic

growth through the incentives that patents offer. The United States has led the way in innovation and economic growth, in my opinion, based at least partly on our patent system. The users of the patent system are willing to fund a healthy, well-run USPTO through user fees, *provided* the services paid for can be delivered and the fees are not diverted away from USPTO use. Let’s not allow the patent system to suffer from inadequate funding when it can easily be self-supporting. We must find a way to allow industry to support the patent system that rewards them for research, investment and innovation. ■