

canady + lortz LLP
intellectual property counsel

Suzannah K. Sundby, Esq.
1050 30th Street, NW
Washington, DC 20007

suzannah@canadylortz.com
T: 202.486.8020
F: 202.540.8020

December 30, 2020

Office of Information and Regulatory Affairs
Office of Management and Budget
Executive Office of the President

Re:

OMB CONTROL NUMBER: 0651-0032
ICR REFERENCE NUMBER: 202011-0651-006
TITLE: Initial Patent Applications

Dear Sirs:

37 C.F.R. § 1.16(u), to go into effect in January 2022, imposes a \$400 surcharge for filing a patent application in PDF form, which currently and ever since the start of EFS-Web filings, applications are successfully filed in PDF form.

The USPTO, however, is attempting to impose a significant penalty—\$400 per application—for any application that is not filed in DOCX format. While documents in DOCX format, *e.g.*, as Microsoft Word files, are generally sufficient for a variety of business and commercial purposes, the DOCX format is not acceptable as the legally recognized version for patent applications which often require the use of scientific, mathematical, and other technical symbols and notations throughout. This is because the “conversion” of such symbols and notations is inconsistent and varies across different user computer platforms and software.

Not only are the scientific, mathematical, and technical symbols inconsistent across different user computer platforms and software, but the simplest characters are often misrepresented when opened and viewed using a different computer platform or software than that used to generate the original document. For example, often symbols like the mu (*i.e.*, “micro” symbol) and the delta symbol in Word documents I receive from clients show up as a big fat square on my Microsoft computer using Microsoft Word. As another example, I received a “revised” draft patent application from an inventor where she replaced a “space” with a “space” in several places throughout the document. Wanting to be sure that all “space” issues were addressed, I did a “find and replace” to replace each “space” with a “space” and after incorporating all her changes, I sent the revised patent application back to her for a final review. Unfortunately, the document was completely unreadable to her on her computer using Microsoft Word because none of the spaces showed. Instead, the words and sentences of the 40+ page patent application showed up as one single word. Hence, I had to send the inventor a PDF version of the Word document so she could review and send comments and changes like back in the pre-word processor days as handwritten notes on the PDF document.

As an example of the type of problem that will likely result from patent applications filed in DOCX and then converted (or viewed) by the USPTO is evident in the type of error I often see when converting the text of a PDF document and into a Word document. The mu symbol changes to a “p”. The difference between a “p” and the mu symbol means the difference

between pico- and micro- which can be dramatic or even deadly in the pharmaceutical and biotech arts. And catching the error in conversion is extremely timely and challenging because both pico- and micro- are regularly used in units of measurement, *e.g.*, picogram and microgram, in science and are therefore regularly used throughout patent applications.

The proposed DOCX format for patent applications does not account for variations in how different software programs handle other features that must be embedded within the disclosure of a patent application such as chemical structural formulas and complex mathematical expressions. One cannot be assured that a chemical structure will be correctly shown in a Word based document unless the same software used to generate the chemical structure is used unless the person who generated the Word document having the chemical structure is the one who converts the Word document into a PDF.

In patent law, everything is based on the patent application as originally filed. Every word, letter, period, comma, dash, and space can have a significant impact on the scope and meaning of the patent claims. Thus, seemingly insignificant typos are often problematic and can be deadly to the patent claims. One cannot amend a patent application after it is filed without risk to how the patent claims are interpreted and construed. And a single patent claim can be worth billions of dollars. A single patent claim may be the foundation upon which an entire industry is built that employs hundred of thousands.

As such, many practitioners asked that the USPTO allow applicants to file a patent application in as both a PDF file and a DOCX file whereby should there be a discrepancy in the DOCX file, the PDF version may be used as the legal version that applicants can point to as support for asking the USPTO to fix “conversion errors”. But it seems the USPTO has no intention of allowing this saving grace. Even if the USPTO allowed such a saving grace, because of the regular “conversion” issues often observed with scientific and technical characters, it is quite likely that the “process” for petitioning the USPTO to fix such a conversion issue would result in a burdensome increase of paperwork and review like that caused by USPTO personnel mistakes in data entry of applicant information, problems with the Web-based version of the Application Data Sheet in which priority claims and benefit claims became magically reversed from that originally entered, etc.

The time it would require me to review a patent application—character by character—to try to ensure that what is presented is exactly as it should be after the countless hours of back-and-forth review with an inventor, far exceeds the DOCX penalty fee. As such, I have advised many of my clients that paying the DOCX penalty fee will be less expensive and less risky to the protection of their IP than filing in DOCX format. Therefore, I have recommended to them that if the DOCX penalty fee is implemented, they continue with having their applications filed in PDF format.

In view of the above and that set forth in the letter of Seventy Three Patent Practitioners (enclosed), the penalty for not filing patent applications in DOCX seems to me to be a rule to line the pockets of the USPTO without any benefit to the public. Additionally, because certain types of inventions, particularly those in the chemical and pharmaceutical arts, require the use of special software to generate and properly view certain information, the penalty unfairly and disproportionately impacts applicants of some industries more than those in others.

For at least these reasons, the USPTO’s proposed DOCX penalty fee should be disapproved.

Sincerely,
/Suzannah K. Sundby/
Suzannah K. Sundby
Reg. No. 43,172

The opinions expressed herein are mine and should not be attributed to any other person or client of Canady + Lortz LLP.

SEVENTY THREE PATENT PRACTITIONERS

September 27, 2019

Via Email fee.setting@uspto.gov

Brendan Hourigan, Director of the Office of Planning and Budget
Mail Stop—Office of the Chief Financial Officer
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313–1450

Re: Setting and Adjusting Patent Fees During Fiscal Year 2020, 84 Fed. Reg. 37398 (Jul. 31, 2019)

Dear Mr. Hourigan:

We write as patent practitioners to comment on a Notice of Proposed Rulemaking (NPRM), *Setting and Adjusting Patent Fees During Fiscal Year 2020*.¹ The signatories are members of several email listserv groups, a community of patent practitioners. The signatories taken together filed about 20,000 patent applications at the PTO during the past ten years, and paid about \$50 million dollars in fees to the PTO in the past ten years.

We are deeply troubled by several aspects of this proposal:

- The PTO is an executive branch agency, not a private-sector company. The PTO is subject to many laws that are not recognized in the proposal. Various elements of this proposal violate laws that are not discussed.
- There are a number of plain errors in the factual statements and rationale for the DOCX proposal, the annual practitioner fee proposal, and several of the “Rulemaking Considerations” sections.
- The costs of several of the proposed rules are substantial; yet the only discussion is “The Office did not identify any monetized costs and benefits of the proposed rule, but found that the proposed rule has ... no identified costs.” This sentence implies more about the quality of the Office’s analysis than it does about the merits of the proposed rules. This letter identifies *dozens* of costs that were not accounted for as required by various statutes.

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I. Laws that govern fee-setting**A. Two different laws clarify that the PTO may not use fee-setting as a policy lever to “encourage,” “discourage,” “incentivize,” or “disincentivize”**

The legislative history of the AIA makes abundantly clear that the PTO may not use fee-setting as a policy lever. Fee setting may be used *only* to recover aggregate costs. Likewise, the United States Constitution denies agencies the authority to set fees for anything other than cost recovery—setting fee levels to “encourage or discourage” is a “tax,” and agencies do not have authority to tax.

Assembling all the relevant laws yields the following algorithm that the PTO must use to set fees:

1. Start with the statutory fee numbers in 35 U.S.C. § 41(a), (b), (d), and (h). The PTO may increase all fees in proportional lockstep to a level that “recovers the aggregate estimated costs.” Congress exercised its policy-setting authority when it embedded various cross-subsidy levels into § 41. Once Congress has done so, the PTO cannot raise one fee or lower another to incentivize or disincentivize applicant conduct, to “encourage innovation,” or any of the other policy-based rationales stated in the NPRM. This is discussed in §§ I.B.1 and I.C.
2. The PTO has authority to break out of this proportional lockstep on the following conditions:
 - a. For any service or processing activities where the PTO performs some affirmative act or delivers some material object, that are not covered by the specific enumerated fees of § 41, the PTO may price the service at cost.
 - b. The Patent Act gives the Director unfettered discretion to set a few fees, with no criteria. For example, §§ 311(a) and 321(a) give the Director authority to set fees for IPRs and PGRs with essentially no constraint, other than that they be “reasonable” after “considering ... aggregate costs.” This is discussed at § I.D.
 - c. When the Patent Act authorizes fee-setting exempt from cost recovery. Examples include § 2(b)(2)(G) for prioritized examination, § 312(a)(1) for IPR petitions, and § 322(a)(1) for PGR petitions. These three statutes grant exemptions from cost recovery or the § 41 schedule.
 - d. Where the PTO has specific line-item data showing that a specific line item’s costs have risen at a rate faster or slower than general costs (it would be the *rate of change* that matters, not the cost itself). In that case, the PTO could exercise the “cost of providing the service” authority of the Independent Offices Appropriations Act (IOAA) to break that line item out of the proportional lockstep, by the degree of the faster or slower cost rise.

3. However, there are things the PTO cannot do:

- e. The PTO may not set fees to encourage or discourage any activity (see §§ I.B.1 and I.C).
- f. The PTO may not create new fees where no fees are “*established, authorized, or charged*” in Title 35, and there is no affirmative material, service, or processing provided.
- g. The PTO may not re-allocate fees among the categories specified in § 41; new fees may be created only where the PTO has a specific statutory authorization (see § I.B.2).
- h. The PTO may not set fees without a benefit-cost analysis under the Paperwork Reduction Act and Executive Order 12866—for example, the PTO may not reduce its own costs if that would increase costs on the public disproportionately (see § I.F).

The NPRM explains four “key fee-setting policy factors” (84 Fed. Reg. at 37402 col. 1-2):

- promoting innovation strategies;
- aligning fees with the full cost of products and services;
- facilitating the effective administration of the U.S. patent system; and
- offering patent processing options to applicants.

If it’s “policy,” it’s not within the PTO’s power to address by fees.² Bullet 2 is within the PTO’s § 10 authority. Bullets 1 and 3 are not. Bullet 4 may be authorized when the PTO has a specific authorization such as § 2(b)(2)(G) (prioritization) or § 41(d)(2)(A) first sentence (requiring cost recovery and only cost recovery for services not otherwise covered in § 41), but not otherwise.

The NPRM concedes that fees are being set to incentivize, disincentivize, and to “set fees to facilitate the effective administration of the patent and trademark systems.” That is not within the PTO’s authority. It is contrary to statute, and unconstitutional.

B. Section 10 of the America Invents Act

1. The AIA legislative history is clear: PTO may set fees *only* to recover aggregate cost—Congress specifically *removed* any implication of authority to use fees as a policy lever

The relevant section of the AIA reads as follows (emphasis added):

(a) FEE SETTING.—

(1) IN GENERAL.—The Director may set or adjust by rule *any fee established, authorized, or charged under title 35*, United States Code, or the Trademark Act of 1946

² The broadest grant of “policy” authority is in 35 U.S.C. § 2(a)(2)(A)—the Director has authority to “provide policy direction ... for the Office” but not for the public or patent system.

(15 U.S.C. 1051 et seq.), *for any services performed by or materials furnished by*, the Office, subject to paragraph (2).

(2) FEES TO RECOVER COSTS.—Fees may be set or adjusted under paragraph (1) *only to recover the aggregate estimated costs* to the Office for processing, activities, services, and materials relating to patents (in the case of patent fees) and trademarks (in the case of trademark fees), including administrative costs of the Office with respect to such patent or trademark fees (as the case may be).

Section 10 as originally introduced in 2011 read as follows (2011 Cong. Rec. Sen. S139-S140 (Jan. 25, 2011), see also version as presented for Senate floor debate, Cong. Rec., at S945 (Feb. 28, 2011) (emphasis added):

SEC. 9. FEE SETTING AUTHORITY.

(a) FEE SETTING.—

(1) IN GENERAL.—The Director shall have authority to set or adjust by rule any fee established or charged by the Office under sections 41 and 376 of title 35, United States Code, or under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113), *or any other fee established or charged by the Office under any other provision of law, notwithstanding the fee amounts established or charged thereunder*, for the filing or processing of any submission to, and for all other services performed by or materials furnished by, the Office, provided that patent and trademark fee amounts are in the aggregate set to recover the estimated cost to the Office for processing, activities, services and materials relating to patents and trademarks, respectively, including proportionate shares of the administrative costs of the Office.

Note that the January-through-March Senate version arguably allows the PTO to move fee income around as it likes, “notwithstanding the fee amounts established or charged [by § 41],” so long as “fee amounts are in the aggregate set to recover the estimated cost.”

This language was slightly amended by Sen. Leahy’s floor debate manager’s amendment (Cong. Rec. at S950 (Feb. 28, 2011), and at S1037 (Mar. 1, 2011)), though the broad “notwithstanding” discretion remained in the bill through Senate passage on March 8, 2011 (Cong. Rec. S1389 (Mar. 8, 2011)).

When the bill moved to the House, the bill had the final-passage language (H.R. Rep. No. 112-98, at 23 (Jun. 1, 2011)):

- The “notwithstanding” clause was removed.
- The “any other provision of law” clause was removed.
- The word “only” was added as a qualifier on “to recover the aggregate estimated costs.”

The section-by-section in the House Report makes clear that these changes, and their effect, was fully intentional (H.R. Rep. No. 112-98, at 49-50) (emphasis added):

Fee-setting authority

a) Agency fee setting authority

... The USPTO has argued for years that it must have fee-setting authority to administer properly the agency and its growing workload. The Act allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, *so long as*

they do no more than reasonably compensate the USPTO for the services performed.

...

The House report continues, at page 78:

Section 11. Fees for patent services.

The Act includes the current patent fee schedule in the text [now § 41]. This schedule represents a reference point for any future adjustments to the fee schedule by the Director.

The addition of the word “only” was entirely intentional, and intended to remove the PTO’s discretion to use fees as a policy lever to “incentivize” or “encourage” or to accomplish any goal other than “to recover the aggregate estimated costs”—that is the *only* “policy lever” the PTO has. The language is not “the PTO shall charge no more than necessary to reasonably compensate;” the language is that fees shall “*do no more than* reasonably compensate.” Likewise, the legislative history makes abundantly clear that the removal of the “*notwithstanding the fee amounts established or charged thereunder*” is entirely intentional, and is a directive to the PTO to track § 41 as a “reference point.”

Both the January introduction and the September final-passage versions of the statute make clear that the PTO has discretion to include general and administrative fees in its user fee recovery base (unlike other agencies, see § I.D). However, the June House bill and its discussion in the House Report makes clear that the PTO has *only* that authority, and does *not* have discretion to use user fees as a policy lever.

2. AIA § 10 sets limits on fee setting authority.

AIA § 10 only permits setting fees “*established, authorized, or charged under title 35,*” and within that, only “*for any services performed by or materials furnished*” by the PTO, but nowhere authorizes creating new fees or restructuring existing fees. The legislative history, specifically the removal of the “notwithstanding” clause from § 10, makes clear that the PTO must work with the § 41 fee schedule, and cannot willy-nilly create new fees without a specific statutory authorization (see § I.B.3 and the text that was *not* enacted, at page 5). For most fees, the legislative history (see page 6) states that Congress intended the PTO to use the existing § 41 as a “reference point.”

There are exceptions, including:

- § 2(b)(2)(G) for prioritized examination;
- § 41(d)(2)(A) first sentence, fees for services not otherwise covered in § 41;
- § 376(a) and (b) for PCT national stage entry; and
- § 382 and § 389(c) for Hague convention design applications.

These contrasting exceptions prove the rule—if § 41 covers a fee area, that is the “reference point,” and the PTO lacks discretion to substitute its policy judgement for Congress’.

3. What are the fees “established, authorized, or charged under title 35”?

Because AIA § 10(a)(1) only authorizes fee setting for “any fee *established, authorized, or charged under title 35*,” and even in that case, only for “for any services performed by or materials furnished by, the Office” it is essential to understand which fees fit in which pigeonhole. As discussed in § I.B.1 above, Congress made abundantly clear that the authority of Section 10 is constrained by the various fees scheduled throughout titles 35 and 15:

- 35 U.S.C. § 41(a), (b), (d), and (h) “establish” most fees, and set baseline amounts.
- § 41(d)(2)(A), first sentence, authorizes the PTO to create new fee items for “other processing, services, or materials relating to patents *not specified in this section*.”
- § 122(e)(1) (third party submissions) authorizes “such fee as the Director may prescribe.”
- § 132(b) (RCEs) authorizes “The Director may establish appropriate fees for such continued examination.”
- § 156(h) (patent term extension) authorizes that “The Director may establish such fees as the Director determines appropriate to cover the costs to the Office.”
- § 257(d)(1) (supplemental examination) directs “The Director shall, by regulation, establish fees for the submission of a request for supplemental examination of a patent.”
- § 261 (recording of assignments) authorizes (but does not require) a fee.
- § 311(a) and § 321(a) require the Director to establish a fee for IPR and PGR petitions.
- § 376(a) and (b) (PCT national stage entry) and § 382 and § 389(c) (Hague convention design applications) are unique: these are the only delegations of authority to the Director to choose what items are fee-bearing *and* what amount.

Other fees are not subject to AIA § 10.

C. The Constitution and the Supreme Court’s definition of “tax”

The current proposal is a “tax,” not a user fee. The Supreme Court and D.C. Circuit explain that the line between “taxes” and “user fees” lies with agency purpose. A “user fee” is a fee set for reasons of neutral cost-recovery. On the other hand, any fee set for any policy reason, “public interest,” to “encourage or discourage a particular activity,” etc. is a “tax.” The PTO overstepped its authority in 2013, and propagates the error in this fee-setting proposal.

The AIA *does* waive a statutory constraint that applies to all other agencies—other agencies may set user fees only to cover costs *to a specific party*, and not to cover general administrative costs, and costs of providing benefits to the public (see § I.D). The AIA waived that, and allows the PTO to recover all costs of patent operations.

BUT—the constraint of law that the AIA did *not* waive—and could not possibly waive because it is a constitutional constraint on the executive branch—is that the PTO may not “tax.” And that means that even with the AIA, the PTO may *not* “adjust assessments to encourage or discourage a particular activity.”

The United States Constitution provides in Article I sec. 8 clause 1 provides that the power to “lay and collect Taxes” lies with Congress, not the executive branch. Art. I sec. 7

clause 1 provides that “All Bills for raising Revenue shall originate in the House of Representatives.”

The Supreme Court and D.C. Circuit have interpreted the constitutional taxing power in a series of agency user fee cases. The current state of constitutional limits on agency use of fees to incentivize or disincentivizes behavior is summed up in a D.C. Circuit case:

Such policy decisions, whereby an agency could, for example, adjust assessments to encourage or discourage a particular activity, would, according to the [Supreme] Court, ‘carr[y] an agency far from its customary orbit’ and infringe on Congress’s exclusive power to levy taxes.³

A much more detailed explanation of the constitutional limits on fee-setting can be found in an article by Ron Katznelson, which we have attached as an exhibit.⁴

D. The Independent Offices Appropriations Act (IOAA) and Circular A-25

The Independent Offices Appropriations Act of 1952, 31 U.S.C. § 9710, is the basic set of guiding principles for agency user fees. OMB Circular A-25⁵ is the OMB guidance for implementation, which the Supreme Court has cited as an authoritative interpretation. The Supreme Court and D.C. Circuit have interpreted the IOAA to impose several constraints:

1. Congress may lay taxes to “encourage” or “discourage,” as discussed in § I.C, but not agencies.⁶
2. Most agencies may set fees only for specific services to a specific “identifiable recipient,” at the cost of providing that service or the value to the recipient, but may not recover agency general operating costs.⁷
3. Most agencies may set user fees to cover the lesser of agency cost of providing services and things that the agency provides, or “value to the recipient,” but the agency may not charge for benefits to the general public or other societal benefits.⁸

³ *Seafarers International Union v. U.S. Coast Guard*, 81 F.3d 179, 183, 185 n.4 (D.C. Cir. 1996), quoting *National Cable Television Association Inc. v. United States*, 415 U.S. 336 (1974); cf. *National Federation of Independent Businesses v. Sebelius*, 567 U.S. 519, ___, 132 S.Ct. 2566, 2594-95 (2012) (because the Affordable Care Act has an exaction designed to incentivize behavior, it is a “tax” and a valid exercise of Congress’ taxing authority).

⁴ Ron D. Katznelson, *The U.S. Patent Office’s Proposed Fees Under the America Invents Act—Part I: The Scope of the Office’s Fee-Setting Authority*, 85 BNA PAT. TM & COPYRIGHT J. 206 (Dec. 7, 2012), attached as an exhibit, available at <https://works.bepress.com/rkatznelson/70>.

⁵ <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>

⁶ *National Cable Television Association Inc. v. United States*, 415 U.S. 336, 340-41 (1974) (NCTA); *Seafarers International Union v. U.S. Coast Guard*, 81 F.3d 179, 183, 185 n.4 (D.C. Cir. 1996); see also *Federal Power Commission v. New England Power Co.*, 415 U.S. 345, 351 (1974) (“NEPCO”) (fees set to reflect “economic climate” are “taxes,” and thus impermissible).

⁷ NCTA, 415 U.S. at 343; *Seafarers*, 81 F.3d at 183.

⁸ NEPCO, 415 U.S. at 349.

4. Where the agency has specific line item data to show both the “value of the service to the recipient” and the “reasonable cost incurred” to provide that service, an agency may charge the lesser of those two amounts.

The PTO is special in this respect—AIA § 10(a)(2) gives the PTO a carve-out from one of the provisions of the IOAA, in the form of authority to recover general and administrative costs. However, of the constraints set by the IOAA, AIA § 10 waives only bullet 2. The explicit wording of AIA § 10(a)(1) waives bullet 2 only for those fees “*established, authorized, or charged under title 35,*” but the legislative history makes clear that the PTO is to be entirely self-funding, so that would likely be sufficient authorization to build general operating costs into other fees as well.

The prioritized examination statute, § 2(b)(2)(G), and IPR and PGR petitions statutes, § 311(a) and § 321(a), specifically exempt these fees from bullet 2—these fees can be set at something other than cost recovery. “Value to the recipient” may be a good measure under bullet 3.

Fees without statutory grounding are not within § 10, and thus are either barred outright, or are subject to the four constraints of the IOAA.

E. Executive Order 12866 and OMB Circular A-4

Executive Order 12866 is the basic benefit-cost executive order. In his first weeks in office, President Trump reminded all agencies of E.O. 12866 and one of its important implementing guidance documents, the *Bulletin on Agency Good Guidance Practices*.⁹ These two provide important guidance to the PTO. In relevant part, E.O. 12866 reads:

Section 1. Statement of Regulatory Philosophy and Principles.

(a) *The Regulatory Philosophy.* Federal agencies should promulgate only such regulations as are required by law, are necessary to interpret the law, or are made necessary by compelling public need, such as material failures of private markets to protect or improve the health and safety of the public, the environment, or the well-being of the American people. In deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating. Costs and benefits shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider.

⁹ See Office of Management and Budget, *Guidance Implementing Executive Order 13771, Titled ‘Reducing Regulation and Controlling Regulatory Costs’*, M-17-21, § 1 (Apr. 5, 2017) (“[A]gencies must continue to assess and consider both the benefits and costs of regulatory actions, including deregulatory actions, when making regulatory decisions, and issue regulations *only upon* a reasoned determination that benefits justify costs” (emphasis added); Office of Management and Budget, Memorandum, *Interim Guidance Implementing Section 2 of the Executive Order of January 30, 2017, Titled “Reducing Regulation and Controlling Regulatory Costs”*, https://www.whitehouse.gov/sites/whitehouse.gov/files/briefing-room/presidential-actions/related-omb-material/eo_iterim_guidance_reducing_regulations_controlling_regulatory_costs.pdf (Feb. 2, 2017) (“Agencies should continue to adhere to OMB’s 2007 Memorandum on Good Guidance Practices.”).

Further, in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.

(b) *The Principles of Regulation.* To ensure that the agencies' regulatory programs are consistent with the philosophy set forth above, agencies should adhere to the following principles, to the extent permitted by law and where applicable:

(1) Each agency shall identify the problem that it intends to address (including, where applicable, the failures of private markets or public institutions that warrant new agency action) as well as assess the significance of that problem.

(2) Each agency shall examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct and whether those regulations (or other law) should be modified to achieve the intended goal of regulation more effectively.

...

(5) When an agency determines that a regulation is the best available method of achieving the regulatory objective, it shall design its regulations in the most cost-effective manner to achieve the regulatory objective. In doing so, each agency shall consider incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity.

(6) Each agency shall assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.

...

(8) Each agency shall identify and assess alternative forms of regulation and shall, to the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt.

...

(11) Each agency shall tailor its regulations to impose the least burden on society, including individuals, businesses of differing sizes, and other entities (including small communities and governmental entities), consistent with obtaining the regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations.

...

The Office of Management and Budget elaborated on the economic analysis required by E.O. 12866 for any regulation that may reasonably be expected to "have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities." Guidance and methodological implementation of

E.O. 12866 are provided in OMB Circular A-4.¹⁰ Some of the required components in a Regulatory Impact Analysis include:

- Identify a range of regulatory approaches.¹¹
- Estimate the benefits and costs—both quantitative and qualitative—of the proposed regulatory action and its alternatives
- Identify the Consequences of Regulatory Alternatives
- Quantify and Monetize the Benefits and Costs
- Evaluate Non-quantified and Non-monetized Benefits and Costs
- Characterize uncertainty in benefits, costs, and net benefits.

E.O. 12866 § 1(b)(2) requires the PTO to “examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct.” Most of the policy goals of the fee schedule could be addressed by internal reforms to reduce costs, as an alternative to raised fees. For example, IEEE-USA gave an extensive set of comments on how internal PTO processes and incentives could be restructured to reduce costs to the PTO and to applicants.¹² The NPRM identifies no exemption from E.O. 12866 that permits the PTO to forego this examination.

F. The Paperwork Reduction Act

The Paperwork Reduction Act, 44 U.S.C. § 3506(c)(2) has its own notice-and-comment requirement, which most agencies run in parallel with the APA comment period:

(c) With respect to the collection of information and the control of paperwork, each agency shall—

(A) ... provide 60-day notice in the Federal Register, and otherwise consult with members of the public and affected agencies concerning each proposed collection of information, to solicit comment to—

¹⁰ <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf> Those that prefer a smaller typeface can find a version at the Federal Register web site <https://www.gpo.gov/fdsys/pkg/FR-2003-10-09/pdf/03-25606.pdf> A 16-page “condensed books” primer is at OMB’s web site, https://www.reginfo.gov/public/jsp/Utilities/circular-a-4_regulatory-impact-analysis-a-primer.pdf

Note that since the total national budget for patent applications and prosecution is about \$5 billion per year, this requirement for an economic analysis is triggered by any regulation that covers 2% of all patent prosecution. It’s striking that the PTO has never undertaken a Regulatory Impact Analysis for any regulation other than its fee-setting rules.

¹¹ Other suggestion letters from well-informed commentators abound. Ron Katznelson, *Patent Reforms Must Focus on the U.S. Patent Office*, Medical Innovations & Business Journal at 77 (Summer 2010), https://www.uspto.gov/sites/default/files/documents/2015quality_f_katznelson2_19may2015.pdf

¹² Comment letter under Paperwork Reduction Act (29 May 2012), at https://www.uspto.gov/sites/default/files/news/fedreg/comments/0651-0031_IEEE_Comment.pdf

(i) evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;

(ii) evaluate the accuracy of the agency's estimate of the burden of the proposed collection of information;

(iii) enhance the quality, utility, and clarity of the information to be collected; and

(iv) minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology; and

(B) for any proposed collection of information contained in a proposed rule (to be reviewed by the Director under section 3507(d)), provide notice and comment through the notice of proposed rulemaking for the proposed rule and such notice shall have the same purposes specified under subparagraph (A)(i) through (iv);

(3) certify (and provide a record supporting such certification, including public comments received by the agency) that each collection of information submitted to the Director for review under section 3507—

(A) is necessary for the proper performance of the functions of the agency, including that the information has practical utility;

(B) is not unnecessarily duplicative of information otherwise reasonably accessible to the agency;

(C) reduces to the extent practicable and appropriate the burden on persons who shall provide information to or for the agency, including with respect to small entities, as defined under section 601(6) of title 5, the use of such techniques as—

(i) establishing differing compliance or reporting requirements or timetables that take into account the resources available to those who are to respond;

(ii) the clarification, consolidation, or simplification of compliance and reporting requirements; or

(iii) an exemption from coverage of the collection of information, or any part thereof;

(D) is written using plain, coherent, and unambiguous terminology and is understandable to those who are to respond;

(E) is to be implemented in ways consistent and compatible, to the maximum extent practicable, with the existing reporting and recordkeeping practices of those who are to respond. ...

Several components of this rulemaking implicate the Paperwork Reduction Act (e.g., the DOCX proposal and the annual practitioner fee). The NPRM asserts that the PTO has obtained Paperwork clearance. This assertion is plainly false—the PTO has never even *applied* for clearance. See §§ II.A.5 and II.B below.

G. The PTO has not acknowledged, let alone addressed, the legal constraints

Despite multiple challenges,¹³ there is apparently no document in which the PTO discusses:

- The AIA legislative history, particularly in the removal of the earlier text, “notwithstanding the fee amounts established or charged,” or the discussion in the House report (see page 5). It is deeply puzzling to us that the PTO has never issued any legal analysis of legislative history.
- The effect of the word “only” in the phrase “*only* to recover the aggregate estimated costs.” Why would that mean “only” in amount rather than “only” in purpose? If Congress had meant “only” amount, that’s the words they would have used. (The legislative history makes clear that Congress intended “only” to apply to purpose as well as amount, see page 5.) It is also deeply puzzling to us that the PTO has never issued any legal analysis of *that* part of the legislative history.
- The Constitutional taxing power.
- The relevant Supreme Court or D.C. Circuit case law, even though the holdings (especially *Seafarers*) are 180° opposite the position the PTO takes in this NPRM.

II. Specific examples of unlawful or unwise fees**A. The proposal to charge a premium fee for PDF, and discount DOCX**

As we explain below, the factual assumptions in the NPRM are entirely incorrect. There are a number of problems with DOCX that are apparent to us, and that were explained in the letters to PPAC. It is troubling that the NPRM fails to respond to the issues raised in the earlier comment letters, and instead offers a number of unsupported and counterfactual rationales.

There is a much better way to solve the problems the PTO identifies in the NPRM. Applicants upload most of their submissions as text-based PDFs. ***Then the PTO’s computer systems degrade them*** to flatten them to unstructured bitmaps. The problem is ***caused by the PTO***.

We recommend an alternative—follow the lead of WIPO’s ePCT and the federal courts’ CM/ECF system. Both ePCT and CM/ECF accept text-based PDFs. Unlike the PTO’s system, both ePCT and CM/ECF remove metadata, but otherwise leave documents intact, in the form that they are submitted. Neither ePCT nor CM/ECF flattens text-based PDFs to bitmaps.

1. Any standard for an electronic filing system must be portable and consistent across all implementations

The most basic requirement for any form of legal archiving is that it be portable and consistent. Page cites must be consistent—even small changes that move a word or line from one page to the next are simply not acceptable. Special characters, equations, and chemical

¹³ E.g., Katznelson, *The U.S. Patent Office’s Proposed Fees*, note 4, *supra*; letter of David Boundy to PPAC, Sept. 12, 2018, https://www.uspto.gov/sites/default/files/documents/David_Boundy.pdf

formulae must render *exactly*. If a system does not *absolutely* guarantee that “What you see is what you get,” it is not acceptable.

DOCX does not satisfy that basic criterion. The NPRM proceeds from a false understanding of the word “standard.” There are two fundamentally-different kinds of standards: most standards are “minimum conforming implementation” standards.¹⁴ Only a few are “interoperability” standards.¹⁵ DOCX is not itself a “standard,” and ECMA-376 and ISO/IEC 29500 are only “minimum conforming implementation” standards. DOCX implements a standard—just like car parts implement the metric system standard. Even though the measurements in today’s cars are all metric, that does not mean that any two alternators from different manufacturers are interchangeable. ECMA-376 and ISO/IEC 29500 are relatively “loose” standards—they leave a lot of room for implementations to differ (after all, Microsoft, the sponsor of the standard, did not want the choices it made in 2007 to be permanent lock-ins). DOCX files cannot even be transferred reliably between Microsoft Word for Windows and Microsoft Word for Mac. Users that use LibreOffice, or WordPerfect cannot reliably transfer documents to or from Microsoft Word. The problems are especially pronounced for equations and formulas. Even basic text can have the problem—standard fonts like Times Roman and Helvetica are available from different vendors, each with slight differences that will alter pagination in some cases. Even in an environment where all software is provided by Microsoft, the result is not reliable in this respect—using different versions of Word *on the same computer*, this letter changed in length by half a page (See Exhibit B).

On the other hand, PDF maintains all this consistency. That is what Adobe designed it to do, and why they named it “portable.”¹⁶ Portability and consistency is the reason that the WIPO’s ePCT and courts’ CM/ECF use PDF—the pagination and rendering are always consistent.

Another fundamental requirement in the design of a system like PTO’s system for e-filing patent applications is that the system should not force applicants or attorneys to purchase any particular proprietary software as a precondition of use of the system. For PDF, there are a number of free and freely-available tools that create and display PDF files. Not so for DOCX—to be consistent with whatever the PTO has in mind, applicants will be locked into purchasing a specific tool.

¹⁴ Most programming language standards are “minimum conforming implementation” standards. For example, the FORTRAN standard permits each implementer to include extension features, and no computer manufacturer’s extensions are compatible with any other’s. Similarly, the FORTRAN standard leaves some rules for arithmetic unspecified—basic arithmetic expressions may give different results on different computers, or even different results on the same computer depending on which software it’s used with.

¹⁵ Examples include the WiFi and IEEE cell phone standards: every implementation is interoperable with every other.

¹⁶ “Portable Document Format (PDF) is a file format used to present and exchange documents reliably, independent of software, hardware, or operating system.” Adobe, *What is PDF?*, <https://acrobat.adobe.com/us/en/acrobat/about-adobe-pdf.html>

It appears that the PTO is unaware of the technology of word processors and documents. The rendering from DOCX to a visible form (either on screen, paper, or PDF) is done by the word processor. That rendering may vary based on various software components installed on a given computer. The same DOCX file can be rendered differently depending on the word processor, fonts installed, which font vendor supplied the font, whether the word processor chooses a vector form or bitmap form for the font, and add-ins for the word processor (especially for equations, pictures and drawings, and chemical formulae). Because a single word processor's rendering engine is used to display on screen, print on paper, and print-as-PDF, the applicant has a trustworthy what-you-see-is-what-you-get. But if that same DOCX is transmitted to the PTO, for the PTO to render using unidentified software and unidentified environment, the results will be different.

2. The factual representations in the NPRM relating to two standards and portability of DOCX are incorrect

The PTO does not tell us what rendering engine will be used within the PTO. Will it be MS Word or some other rendering engine? The "viewer" software in Firefox, Internet Explorer, or Chrome, or the viewer in Google gmail, Word 2003, 2013, or 2016? For Mac or Windows? All behave differently. With DOCX, no amount of care by a practitioner can possibly ensure how the document will be interpreted by the PTO's rendering or conversion software. It is unreasonable to expect the filer to undertake to proofread, carefully, word-by-word, any specimen of the conversion result the PTO may provide just before the filing is finally submitted. Indeed, the very requirement to proofread the rendering (noted below in red text) is an admission by the PTO that it recognizes that DOCX is a shaky foundation for a legal document filing system (there's no such warning in today's system). For lengthy, complex specifications, the 60-minute timeout in EFS would preclude effective review. In the case of a timeout, the subsequent re-submission would still require the filer to review the entire conversion result from the beginning.

Standards ECMA-376 and ISO/IEC 29500 themselves disclaim the kind of interoperability that the PTO assumes. Some example sentences:

- "a software application should be accompanied by documentation that describes what subset of ECMA-376 it supports" ECMA-376 expressly states that there is no common set of features that are required to be implemented; all the standard guarantees is that *if* certain features are implemented, they will behave in a certain manner. A standard useful for an electronic filing system cannot rely on features that are optional in some implementations and unimplemented in others.
- "The application need not implement operations on all XML elements defined in ECMA-376." Some implementations of DOCX are permitted to have features that will cause errors in others.
- "A batch tool that reads a word-processing document and reverses the order of text characters in every paragraph with 'Title' style before saving it can be conforming even though ECMA-376 does not recommend this behavior. [A conforming word processor may] transform the title 'Office Open XML' into 'LMX nepO eciffO'. Its documentation

should declare its effect on such paragraphs.” The ECMA standard *expressly allows* for entirely different renderings, so long as it’s documented.

- “These application descriptions should not be taken as limiting the ability of an application provider to create innovative applications. They are intended as a mechanism for labelling applications rather than for restricting their capabilities.” A standard useful for an electronic filing system can’t rely on features that are optional in some implementations and unimplemented in others.
- “[*Note: A possible application description would be a ‘standard’ application description for a wordprocessing application. This could be created by taking the intersection of the features available in common wordprocessing applications such as Word 2000, OpenOffice 2, WordPerfect, and iWork Pages. ... end note*]” ECMA-376 expressly states that there is no common set of features that are required to be implemented; all ECMA-376 guarantees is that *if* an implementer wants to implement a given feature, there is a format in which to implement it. There are very few behavioral guarantees.
- ECMA-376 leaves a number of features “implementation defined,” including whether and how to save any element that is under the control of a plug-in, how dates are rendered, how embedded pictures are rendered, whether numerical values are rendered with a “.” or a “,” as a decimal point, how fonts are chosen in rendering, line number spacing, and other characteristics. Documents copied from one DOCX program to another have no guarantee of being rendered consistently.
- A Microsoft blog¹⁷ writes “One of the great things about ISO/IEC 29500 is its extensibility mechanisms - implementers can extend the file format while remaining 100% compliant with the standard.” That statement is the admission—there is no uniform interoperability standard. ISO/IEC 29500 is a baseline, minimum functionality standard, not an interoperability standard that guarantees bilateral consistency between any two implementations. That may be a good feature for software developers, but it’s catastrophic for the use that the PTO contemplates. That bilateral interoperability is the whole point of the PDF standard.

As technically-trained lawyers, we don’t understand how any person could read ECMA-376 and not have immediately noticed the glaring deficiencies as a “standard” for legal documents.

One of the signatories of this letter was among the very first of the beta-testers of PTO’s system for DOCX filings. As implemented by the PTO, the practitioner would upload a DOCX file, and PTO would render the DOCX file in a human-readable PDF image format. As part of the e-filing process, the practitioner was expected to proofread the rendered image as provided by the PTO’s e-filing system. The notion was that the practitioner would be obliged to catch any instances of PTO’s system rendering the DOCX file differently from the way the practitioner’s word processor had rendered that same DOCX file. If, for example, some math equation or chemical formula had gotten corrupted in PTO’s system, the practitioner would be expected to catch this *prior to* clicking “submit.”

¹⁷ <https://blogs.msdn.microsoft.com/chrisrae/2010/10/06/where-is-the-documentation-for-offices-docxxlsxpptx-formats-part-2-office-2010/>

There is no single unambiguous thing called “DOCX” format. The history may be seen in the Wikipedia article on “Office Open XML,” at https://en.wikipedia.org/wiki/Office_Open_XML . One key sentence is:

The Office Open XML specification exists in a number of versions.

Five, to be precise. <https://www.ecma-international.org/publications/standards/Ecma-376.htm>
To the extent there is a standard at all, it is too lax to be useful for the purpose the PTO proposes. DOCX exists in many variants, and Microsoft has a history of making poorly documented changes over time to the ways that Microsoft Word implements DOCX formatting of documents.

The PTO’s web site, <https://www.uspto.gov/patent/docx> inaccurately characterizes DOCX as if one could be sure that any word processor will implement DOCX in the same way as any other word processor. For example, PTO says:

There are several word processors that can create and save in DOCX format, including Google Docs, Microsoft Word 2007 or higher, Office Online, LibreOffice, and Pages for Mac.

That statement is misleadingly incomplete, conveying a clearly erroneous impression, disingenuous at best, and borders upon falsity given that there is no single unambiguous DOCX format. A more accurate statement would be:

There are several word processors that can create and save documents in variants of DOCX formats, including Google Docs, Microsoft Word 2007 or higher, Office Online, LibreOffice, and Pages for Mac.

PTO also says (<https://www.uspto.gov/patent/docx>):

DOCX is stable and governed by two international standards (ECMA-376 and ISO/IEC 29500).

This statement is simply false. There is no single DOCX standard to which Microsoft Word and the other word processors are all compliant.

To give a simple example, consider this math equation in a patent application recently filed as a PDF-based PCT application using Libre Office:

$$f(u) = \cos(u)^3 \exp(0.2u)$$

As an experiment, this Libre Office DOCX file was uploaded as a DOCX to EFS-Web as if filing a domestic US patent application. The way the PTO has designed EFS-Web, what happens next is that the practitioner sees this message in red letters:

The PDF(s) have been generated from the docx file(s). Please review the PDF(s) for accuracy. By clicking the continue button, you agree to accept any changes made by the conversion and that it will become the final submission.

It is easy to see that this filing procedure, as contemplated by the PTO, imposes an enormous professional liability risk on the practitioner. The practitioner is obligated to proofread the entire

patent application, from top to bottom, for any corruption introduced by the PTO's rendering system.

Here is how the PTO rendered this math equation:

$$f(u) = \cos(u)^3 \exp(10.2u)$$

Note that the PTO's rendering system inserted a spurious digit "1" into the math equation. Had the practitioner overlooked this corruption of the document by the PTO, the practitioner might then have clicked "continue", at which point it would have been PTO's position that the practitioner had agreed to accept PTO's change of "0.2" to "10.2".

In other cases, the PTO's system changes fonts.

Let's assume that the practitioner catches a situation where the PTO's rendering engine has changed the result relative to what the practitioner saw on his/her word processor. Let's say some characters are showing up as boxes, question marks, or just the wrong character, or changed fonts. The practitioner has been diligent and noted that the PDF does not match the DOCX. Now what? Does that guarantee that the practitioner knows how to fix the problem? No. Most of these problems are deep in the guts of two different software systems. With deadlines looming, how is a practitioner going to change either the practitioner's word processor or the PTO's rendering software so that the two agree? Which one should change? How will the practitioner get that software change implemented in the next few hours so that the application can get its filing date? Knowing that there is a problem, and being able to fix the problem in a timely manner, may be two completely different things.

Signatories of this letter that have used the PTO's DOCX system opt out (and use PDF) if there is any math equation or chemical formula, or anything other than very simple alphanumeric characters.

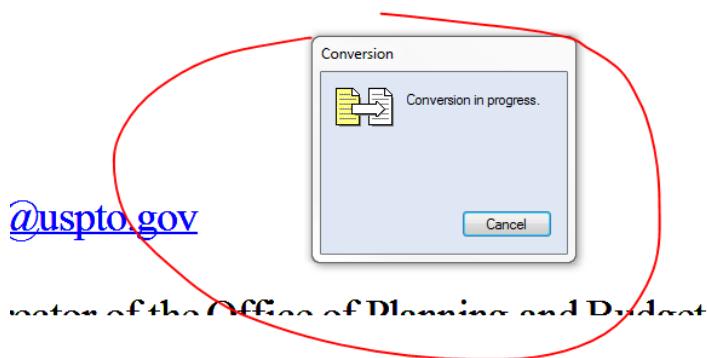
But this proposed DOCX rule would put every practitioner in the untenable position of having to pay a \$400 penalty tax for every case filed electronically using EFSWeb.

Exhibit B to this letter is a copy of this letter as rendered after copying from Word 2013 to several of the applications that the PTO claims to be "compatible" (<https://www.uspto.gov/patent/docx>). Exhibit B started out as exactly this letter—this paragraph, the change from Fifty" to "Seventy Three" practitioners in the page header, the application counts and fees in the opening paragraph, and the signature page are the only portions of this letter that was edited after we snapshoted it to create Exhibit B. We copied that snapshot from Word to LibreOffice to Google Docs to Word for Macintosh and back to Word. At each stage, merely opening the document and using "Save As" changed the document. The changes could well be fatal to any patent application:

- On page 1, the font for the letterhead is changed, even though Copperplate Gothic Bold is a relatively common font. If this were, for example a special font for Greek letters, special symbols such as ①②③, or the like, a change to font would be fatal.
- On page 1, the format for the bullet list is changed
- In the page header, the alignment of the components of the header was changed.

- Throughout, the format for footnotes is changed. At the very least, this will make page citing (*e.g.*, for appeal briefs) unreliable.
- On pages 2-4, the format of the Table of Contents is changed—text is turned into colored hyperlinks
- On pages 4-5, the numbering for the list items changed—instead of “1, 2, 3,” the items are numbered “1, 1, 1”
- On pages 5 to 10, all footnotes are garbled, with tags like REF_Ref523926138 2 \w \h * MERGEFORMAT,
- Throughout, the outline section numbers reset to “A” or “1” rather than counting up as they should.
- At pages 18 and 27, figures are completely blanked out.
- From page 17 to 23, the text is changed from 12 point to 10 point.
- At pages 19-21, the table formatting is altered.
- When we tried WordPerfect as the first word processor in the chain, it opened the document, but made a number of changes. In producing the final edition of Exhibit B, WordPerfect was to be late in the chain. But in that position, Word Perfect failed completely—Word Perfect simply hung while trying to convert the document:

Fifty Patent Practitioners



It certainly appears that no one at the PTO did any experimentation to confirm the factual representations at the PTO’s “docx” page or the NPRM. There is no basis whatsoever for the PTO’s claim that other word processors are “compatible” with Word, at least not in any practical sense.

3. The rationales stated in the NPRM are faulty

The following table responds to the PTO’s factual assertions and rationales. The PTO’s claims for the “Non-DOCX Filing Surcharge Fee” are in the left column. The actual facts and observations of attorneys and agents with experience are in the right column:¹⁸

¹⁸ NPRM, 84 Fed. Reg. at 37413.

Rationale from 84 Fed. Reg. 37413	Our observations
Based on a USPTO survey, over 80 percent of applicants author their patent applications in DOCX in the normal course of business.	<p>Even if this is true (the PTO neglects to make its data or methodology available, in violation of the PTO's obligations under its own Information Quality Guidelines), it ignores two key facts:</p> <ul style="list-style-type: none"> • 20% don't. The costs on those parties to <i>reliably</i> file based on DOCX from their word processors—and reviewing the PTO's rendering of the document as received—will be immense. The PTO fails to consider that cost. • That 80% includes users of many different word processors, and document rendering across those word processors is <i>not</i> portable
Filing in structured text allows applicants to submit their specifications, claims, and abstracts in text-based format, and eliminates the need to convert structured text into a PDF for filing.	<p>Applicants already submit most documents in a “text-based format,” PDF.</p> <ul style="list-style-type: none"> • The PTO did not measure the cost of <i>not</i> converting word processor documents to PDF, or compare that cost. • The PTO did not measure the cost of splitting one DOCX file into three for filing. • The PTO did not consider costs of DOCX features that might be in a practitioner's word processor but not accepted by the PTO's system.
Applicants can access examiner Office actions in text-based format which makes it easy to copy and paste when drafting responses.	<p>The format for Office Actions has no relevance whatsoever to the format of applicant submissions.</p> <p>In a system that accepts PDFs, applicants are responsible for generating a correct PDF. Under current practice, that generation is readily predictable and controllable. If the PTO does it, with an undisclosed tool, the process is unpredictable. It certainly appears that the PTO intends to shift responsibility for the PTO's unpredictable data transcription errors onto applicants.</p> <p>In downloaded Office actions, much information can be gained by seeing what information is form or template data. The Office has not considered the impact of similar accessibility of application edit history data even if “metadata” is scrubbed.</p>

The availability of structured text also improves accessibility for sight-impaired customers, who use screen reading technology.	These advantages are available to exactly the same extent for the text-based PDFs that applicants submit today, if only the PTO's systems did not degrade them to flat bitmaps.
It enables development of software to provide automated initial reviews of applicant submissions to help reduce effort required by the Office.	
The automated reviews can tell applicants up-front if potential problems exist and allow them to make changes prior to or at the time of submission.	
This also improves validation based on content, such as claims validation for missing claim numbering or abstract validation for word count and paragraph count.	
DOCX filing also improves document identification by automatic detection, allows for greater reuse of content, and provides improved searching for patent applications and submissions.	
Increased DOCX filing will also lead to higher data quality, by reducing system conversion errors.	This is false. DOCX will <i>increase</i> data conversion errors, because DOCX does not, and was not intended to, provide reliable or portable “what you see is what you get” uniformity. The supposed benefits are available to a <i>greater degree</i> with the text-based PDFs that applicants submit today, if only the PTO would stop degrading them.
It provides a flexible format with no template constraints.	To the degree this sentence has any meaning (which is not apparent), this is available to exactly the same extent for the text-based PDFs that applicants submit today, if only the PTO would stop degrading them. To the contrary, the three-document requirement is a template constraint. But this also highlights the potential loss to applicants of advanced word processing features.
[DOCX] also improves data quality by supporting original formats for chemical formulas, mathematical equations, and tables.	This is false. DOCX will <i>increase</i> data conversion errors. Various word processors use several different third-party plug-in packages for chemical formulas and mathematical equations, and they differ. However, as rendered in a PDF, they are all consistent. The supposed benefits are available to a <i>greater degree</i> with the text-based PDFs that applicants submit today.

The originally submitted structured text document is available within Private PAIR, allowing easy retrieval of original DOCX files after transfer of cases between users.	It is very rare that when a case moves from one practitioner to another, that the old practitioner won't do the courtesy of transferring original working documents. Of the "costs" and "benefits" imagined in the NPRM, this is the only one that a value in the PTO's direction, but it's vanishingly small.
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This is a failure of the obligation to disclose rationale. If there is any sound cause-and-effect between the proposal and the asserted benefits, they are not explained in the NPRM. That is arbitrary and capricious under the Administrative Procedure Act.

4. Alternative suggestions

Our preferred solution is to change nothing on the applicant's side—applicants should continue to file text-based PDFs. Instead, the PTO should change—discontinue degrading those text-based PDFs into flattened bitmap PDFs.

Another option to consider is the example of WIPO: WIPO permits the applicant, at the time of filing an international patent application, to provide not only the character-based version of the patent application (XML, in the case of PCT), but also the "pre-conversion format" of the document. This is explained in the PCT Administrative Instructions § 706, at <https://www.wipo.int/pct/en/texts/ai/s706.html>. The idea is that if later it turns out that some flaw arose in the generation of the XML file, or some flaw in the way the XML got rendered into human-readable form, the applicant would be able to point to what the application looked like in its "pre-conversion format".

As a precondition to imposing a \$400 penalty for non-DOCX filings, the PTO should provide the practitioner the option to provide a PDF version of the patent application being filed, along with the DOCX file. This PDF version would serve as the controlling version in the event that (for example) the PTO rendered the DOCX incorrectly.

It is clear that the PTO never actually tested its DOCX e-filing system with any word processor other than Microsoft Word. And the software in the PTO's e-filing system fails to handle correctly even a very simple DOCX file created using Libre Office. It is recalled (see above) that Libre Office is one of the word processors that the PTO points to as (supposedly) being supported by the PTO in its patent e-filing system.

DOCX files are more prone to viruses and malicious code.

5. Legal deficiencies in the DOCX proposal

The PTO's materials state that the fee is intended to "encourage" applicants to do something. That violates the limits of § 10(b)(2), and it is an unconstitutional "tax." See §§ I.B.1 and I.C.

The PTO's current DOCX system requires that a single document be split into three, the specification, claims, and abstract. But that breaks page numbering and other automatic formatting features provided by Word. The PTO's Paperwork Reduction Act analysis fails to consider this and similar costs.

How will shifting from PDF to DOCX affect applicants' recordkeeping requirements and costs? There is a lot of benefit to PDF's—with a PDF, it is always clear *exactly* which version was submitted to the PTO, even if there were many versions of the DOCX. A PDF *always* looks exactly the same, no matter what computer it is opened on, no matter what font cartridge happens to be loaded in a given printer. The same cannot be said for DOCX files. We have had situations where a Word document printed on one printer has one more line per page than when printed on another printer—trying to page-cite to a document that is in the PTO's IFW will be unreliable. The PTO will have to estimate the recordkeeping costs of this randomness, costs of reviewing every submission before hitting “submit,” and the costs of developing and changing recordkeeping practices, under the Paperwork Reduction Act. And all transition costs.

Drawing submissions are generally in PDF file format and generally cannot easily be made in the DOCX format, so the Office will receive PDF submissions anyway. This is particularly true for provisional applications, where drawings embedded in the text are especially common. The PTO will have to confer with the public to estimate those costs.

The NPRM states that this rule is a “transfer payment from one group to another.” This is false. The operative definition of “transfer payment” is in OMB Circular A-4;¹⁹ the original definition involved cash payments to private sector actors (such as social security, poverty and food assistance programs, and other social benefit programs), and the definition has grown to cover other direct cash transfers among private sector entities (for example, prices set at supracompetitive levels). In contrast, the NPRM is calls for funds to be paid from private sector persons to government for government consumption. The NPRM discusses no monetary payout to any private sector party, the essential characteristic of a “transfer payment.”

The PTO cannot legally go forward with the annual practitioner fee from this NPRM. If the PTO wants to impose such a fee, it must re-propose with a new NPRM, which contains a complete and truthful Regulatory Flexibility Analysis, Paperwork Reduction Act certification, and E.O. 12866 Regulatory Impact Analysis, and E.O. 13771 statement, each discussing the factors we raise below, and showing positive benefit-cost.

B. The “annual practitioner fee” and CLE discount

The proposal proposes to create new fees for “Annual Active Patent Practitioner Fee ... without certifying continuing legal education (CLE) completion” and “...with certifying continuing legal education (CLE) completion.”

At PPAC stage, the PTO was completely silent on rationale for creating the annual fee (there were a few sentences of rationale for the CLE discount, but not for the fee). The rationale offered in the NPRM is (84 Fed. Reg. at 37415):

Currently, the costs of OED's disciplinary and other functions are paid by patent applicants and owners. The Office proposes these fees so that practitioners, who directly benefit from registration, should bear the costs associated with maintaining the integrity of their profession, including the costs of OED's register maintenance and disciplinary

¹⁹ OMB Circular A-4, *Regulatory Analysis*, at 38 (Sept. 17, 2003), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf>

functions. This parallels the way many state bars operate where the services of maintaining the bar are often paid by the attorneys who are members of that bar. Accordingly, these fee collections are proposed to shift the costs of the services OED provides practitioners in administering the disciplinary system and register maintenance from patent applicants and owners to the practitioners.

... The fees would also serve to fund the Patent Pro Bono Program and the Law School Clinic Certification Program, which increase public access to competent legal representation in IP matters, help enhance the IP legal profession for its members, and serve to make the patent examination process more efficient by decreasing the number of pro se applicants. In addition, the fee would help to cover the costs of increased outreach efforts, including speaking engagements and providing additional training opportunities to help patent practitioners receive the CLE discount...

In addition, PPAC stated that the annual fee would “make certain that the roll of registered practitioners is up-to date and to defray the patent related costs of operating the Office of Enrollment and Discipline (OED).” These rationales confess that the “annual practitioner fee” is beyond the PTO’s authority under § 10, and violates the IOAA:

- For maintaining a current roll of active practitioners, the Paperwork Reduction Act requires that the PTO seek the lowest-burden alternative. What’s the matter with an annual paper survey, an email ping, or a reminder to any practitioner that hasn’t logged into his/her myuspto account for a year?
- For “defraying operating cost,” where’s the statutory authorization?
- The IOAA limits agency user fees to cover specific services to a specific “identifiable recipient,” at the cost of providing that service or the value to the recipient, but may not recover agency general operating costs (see § I.D and note 7 of this letter). The NPRM never mentions the IOAA, let alone any exception.

The NPRM is entirely silent on several legally-required issues relating to the annual practitioner fee proposal:

- The materials identify no statutory authorization. § 41(d)(2)(A) permits the Director to “establish fees for all other processing, services, or materials.” One of the comment letters to the PPAC directly challenged the PTO to identify a specific “processing, service or material” that is provided;²⁰ by silence, the NPRM concedes there is none. § 2(a)(2)(D) authorizes the Director to “govern recognition and conduct of agents [and] attorneys,” but no fee is authorized as part of § 2(a)(2)(D).
- AIA § 10(a)(1) only authorizes the Director to “adjust by rule any fee *established, authorized, or charged under title 35*.” § 10 does not authorize creating new fees, only adjusting existing fees (see § I.B.2). Because this is not a fee within the AIA § 10, the Independent Offices Appropriations Act applies. The IOAA and its implementing case law limit the PTO’s ability to set levels of new user fees—the PTO may charge fees to

²⁰ letter of David Boundy to PPAC, Sept. 12, 2018, https://www.uspto.gov/sites/default/files/documents/David_Boundy.pdf at page ____.

cover actual cost, but not to create cross-subsidies, or to influence behavior.²¹ Thus, at highest, an annual practitioner fee can be at cost-recovery *for the services provided to the specific “identified recipient.”*

- The NPRM identifies no legally-permissible reason for it. E.O. 12866 § 3(f)(1) requires that the PTO “identify the problem that it intends to address (including, where applicable, the failures of private markets or public institutions that warrant new agency action) as well as assess the significance of that problem.” The Administrative Procedure Act also requires a statement of rationale at proposal stage. The only explanations of either need or benefit for an annual practitioner fee, at the level required by E.O. 12866, are both illegal.
- E.O. 12866 § 3(f)(1) requires that the PTO “assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.” There is no estimate of either costs or benefits, and thus no balancing against the *status quo*.
- The Paperwork Reduction Act requires the PTO to account for costs for reporting, recordkeeping, and other compliance costs. The NPRM is silent.
- The PTO must analyze costs for all patent agents, who are not admitted to the bar of any state, and thus have no existing CLE requirement that would overlap with any Patent Office Requirement.
- The PTO must analyze costs for all patent attorneys who are admitted to the bars of any state that does not impose an existing CLE requirement that would overlap with any Patent Office Requirement.
- A great fraction of all practitioners work for small entities. Thus, the Regulatory Flexibility Analysis (84 Fed. Reg. 37425-30) must analyze the effect of the annual practitioner fee on these small entities. It does not. It would be unlawful for the PTO to proceed further with this proposal without an Initial Regulatory Flexibility Analysis.
- The PTO must be able to *certify* that the requirement is “*necessary* for the proper performance of the functions of the agency.” 44 U.S.C. § 3506(c)(3)(A). The PTO has run a practitioner registration program for the better part of a century without an annual practitioner fee or CLE requirement—why have they suddenly become “*necessary*?”
- The PTO must be able to *certify* that the requirement is implemented in ways “consistent and compatible, to the maximum extent practicable, with the existing reporting and recordkeeping practices of those who are to respond,” including for those attorneys in states that do not have existing CLE requirements, and for all agents.
- “The USPTO proposes to add paragraph (d) to § 11.8 to establish a new fee to be paid annually by practitioners.” 84 Fed. Reg. 37422 at col. 1. The E.O. 13771 certification, at 84 Fed. Reg. 37430, states “this proposed rule is expected to involve a transfer payment.” These two sentences cannot both be true. The latter is a falsehood: the annual

²¹ See §§ I.B.1 (legislative history), I.C (constitutional taxing power), and I.D (IOAA) above, and Katznelson, *Scope of Fee-Setting Authority*, note 4, *supra*.

practitioner fee does not fit any of the applicable definitions of “transfer payment” (see § IV.C).

- The PTO proposes that “[T]hrough the encouragement of practitioner CLE by offering a \$100 annual fee discount as well as recognition on OED’s public practitioner search page, the patent system should benefit greatly.” NPRM, 84 Fed. Reg. at 37415. If it’s about “encouraging,” it’s an unconstitutional tax.
- The PTO proposes that “Encouraging CLE, by offering a discount, will improve the quality of the bar and therefore of the resulting patents.” *Detailed Appendix* slide 65. If it is about “encouraging,” it is an unconstitutional tax.
- This fee would raise about \$5 million per year for the PTO. The Paperwork Reduction Act requires that the PTO estimate *all* costs—searching for appropriate CLE courses, travel, attendance, fees for the courses, tracking the paperwork, recordkeeping, submitting it to the PTO, docketing the annual act of paying the fee, firm administration to ensure that all practitioners are up to date, and the like. Multiplying out some estimated numbers, it seems that added costs would lie in the range of \$40-\$100 million per year. Before proceeding, the PTO will have to show public benefit in the same range, and that the annual fee is the least costly way to achieve the benefit. (The burden of proof is on the agency.) OED gets its current funding out of the general patent fund—no paperwork muss, no fuss. What’s wrong with that?
- The NPRM states “The collection of information involved in this proposed rule has been reviewed and previously approved by OMB under control numbers 0651–0012, 0651–0016, 0651–0020, 0651–0021, 0651–0031, 0651–0032, 0651–0033, 0651–0059, 0651–0063, 0651–0064, 0651–0069, and 0651–0075.” This is false. If there were any such approval, it would be under control number 0651-0012 “Admission to Practice and Roster of Registered Patent Attorneys and Agents” and it is not in the current inventory.²² The PTO has made no filing seeking any substantive change to 0651-0012 since 2014.²³

Circular A-4 then requires that the agency “Quantify and monetize the benefits and Costs” and “evaluate non-quantified and non-monetized benefits and costs.” The PTO has not done so, except to state “The Office ... found that the proposed rule has significant qualitative benefits with no identified costs” (84 Fed. Reg. 37401). The NPRM does not specify what those “qualitative benefits” are for the practitioner fee. The absence of “identified costs” tells more about the quality of the Office’s analysis than about costs.

The laws that govern regulatory analysis required the PTO to perform a benefit-cost analysis, and make the analysis public so that the public could meaningfully participate in the PPAC hearing. Maybe an annual practitioner fee is a good idea. Maybe not. Maybe it would be counterproductive to the PTO’s budget—maybe the costs of administration would nearly eat up the revenue. Regulatory analysis is mandatory precisely to ensure that agencies do not leap before they look, and benefits the agency when the agency can show the public that it is acting for public benefit, not for agency benefit.

²² https://www.reginfo.gov/public/do/PRAICList?ref_nbr=201712-0651-022

²³ <https://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0012>

Regulatory analysis is not just something that agencies get around to when they feel like it; it is something that law-abiding agencies do for every regulation that “that is likely to result in a rule that may ... have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy,”²⁴ under the Executive Order 12866 and Circular A-4. It is something agencies do for any regulation that requires the public to submit paperwork to the agency, under the Paperwork Reduction Act.²⁵ Because a high fraction of patent practitioners are employed by small entities, analysis under the Regulatory Flexibility Act is also required.

C. The proposal to increase fees for second RCEs

1. The selective disclosure of factual information is problematic

Fees for RCEs are authorized to be set by the Director. They are not specifically scheduled in § 41, but they are “authorized.” Therefore, § 10 allows the PTO to set those fees. However, § 10 only supersedes one requirement of the IOAA, and leaves all other fee-setting laws in place (see § I.D of this letter). The PTO may not set fees to “encourage” or “discourage,” (see §§ I.B.1 and I.C), and must honor the provisions of the IOAA that are not waived by § 10(a)(2), and must honor the non-waivable constitutional limits against executive branch “taxation.”

The cost materials provided to the PPAC showed unit costs for “RCE—1st request” and “RCE—2nd and subsequent.”²⁶

	proposed fee	unit cost FY 2017
Request for Continued Examination (RCE) - 1st Request (see 37 CFR 1.114)	\$1,360	\$2,235
Request for Continued Examination (RCE) - 2nd and Subsequent Request (see 37 CFR 1.114)	\$2,000	\$1,654

If “RCE 2nd request” is *lower* in unit cost, then how can the PTO justify setting the “2nd and subsequent request” fee *higher*? The PTO’s 2013 and 2016 rule notices *have* offered justification for this fee—an illegal justification. The PTO’s very own words make clear that the “2nd and subsequent” fee is a tax, and therefore unlawful.

At NPRM stage, how does the PTO handle this anomaly? By excising the “inconvenient” information. The “USPTO Section 10 Fee Setting – Activity-Based Information and Costing Methodology” document²⁷ simply omits any discussion of “2nd and subsequent request”—note how each line only discusses “1st request:”

²⁴ Executive Order 12866 § 2(f)(1).

²⁵ 44 U.S.C. § 3506.

²⁶ Table of Patent Fees – Current, Proposed and Unit Cost, https://www.uspto.gov/sites/default/files/documents/Table_of_Patent_Fees_-_Current_Proposed_and_Unit_Cost.xlsx (Sept. 22, 2019)

²⁷ https://www.uspto.gov/sites/default/files/documents/ABI_Methodology_July2019.docx

1312/2312/3312	Design Examination fee	II
1801/2801/3801	Request for continued examination (RCE) (1st Request) (see 37 CFR 1.114)	III

1312/2312/3312	Design Examination fee	\$	200	\$	311	\$	301
1801/2801/3801	Request for continued examination (RCE) (1st Request) (see 37 CFR 1.114)	\$	1,553	\$	1,329	\$	1,533

Contributing Activity Unit Cost Adjusted for Frequency of Occurrence approach. However, this approach is applied to two scenarios: (1) the cost of a single application with no request for continued examination, and (2) the cost of a single application with one request for continued examination. For some activities, different frequency factors are applied for each scenario

TABLE 12 –FY 2011 Cost for Single Application with One Request for Continued Examination

TABLE 13 –FY 2011 Cost for Single Application with No Request for Continued Examination

TABLE 14 –FY 2010 Cost for Single Application with One Request for Continued Examination

TABLE 15 –FY 2010 Cost for Single Application with No Request for Continued Examination

TABLE 16 –FY 2009 Cost for Single Application with One Request for Continued Examination

TABLE 17 –FY 2009 Cost for Single Application with No Request for Continued Examination

The omission, after including it in previous documents, certainly appears to be entirely intentional. Omission of information that is known to the PTO and that known to be contrary to a position stated by the PTO is deeply problematic.

2. The higher fee for “2nd and subsequent RCE” is unlawful

- The 2019 NPRM does not state any rationale for the “2nd and subsequent RCE fee” to be different than the 1st, let alone higher. Without an explanation, this is “arbitrary and capricious.”
- RCE fees are governed by the IOAA, except for the one requirement that is carved out by AIA § 10 (see § I.D of this letter). Thus, the PTO may charge its actual cost, plus a proportional share of general administrative costs, reduced by a proportional share of issue and maintenance fees. But no more than that. The excess charge for second RCEs is unlawful.
- The 2012 NPRM explained that the “2nd and subsequent RCE fee” was intended to “Multipart RCE fees demonstrate how the Office seeks to facilitate the effective administration of the patent system and offer patent prosecution options to applicants.” That admission makes the 2nd-and-subsequent RCE fee an unconstitutional “tax” (see § I.C of this letter).

- This tends to hurt small entity applicants, and small entity law firms. Small entity applicants' applications. The Initial Regulatory Flexibility Analysis offers no explanation justifying that differential effect on small entities.
- More-innovative inventions tend to take longer prosecution times than small incremental inventions—inventors are less willing to compromise to just “take a weak patent and run.” The higher charge for “2nd and subsequent RCEs” penalizes exactly the more-inventive inventions that the patent system is supposed to encourage. E.O. 12866 § 1(b)(5) requires that the PTO explain any regulation that impairs “incentives for innovation.” The NPRM fails to do so.
- E.O. 12866 § 1(b)(2) directs agencies to “examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct.” In 2012, the PTO requested comment on RCE practice.²⁸ Several of the comment letters²⁹ noted that at least in part, extended RCE practice was driven by a breakdown of “compact prosecution”—Office Actions were less complete, less careful, less responsive to applicants' arguments. We have not observed any effort by the PTO to address its “existing regulation” half of the problem—for example, the PTO has not recalibrated the count system to remove incentives for gaming by examiners, or provided sound supervision to ensure completeness of Office Actions. E.O. 12866 suggests that it's inappropriate to shift costs to the public for a failure of the PTO to implement its own self-regulatory obligations.

D. The restructuring of appeal fees exceeds the PTO's authority under AIA § 10

The change from “notice of appeal” and “filing a brief in support of an appeal” of § 41(a)(6) was restructured into “notice of appeal” and “forwarding an appeal to the Board” as in 37 C.F.R. § 41.20(b)(1) and (4). That is unlawful, and needs to be backed out.

The proposed fees are entirely out of line with the statutory fees. This is especially concerning, given the high rate of reversal (when reversals at pre-Appeal stage, Appeal Brief stage, and final decision stage are added together, the reversal rate is well over 50%, and last

²⁸ <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-request-comments-request-continued-examination>

²⁹ IEEE-USA, https://www.uspto.gov/sites/default/files/patents/law/comments/ieee_20130204.pdf (“the PTO's current compensation system provides examiners with considerable incentives to *delay*.”); ABA-IPS, https://www.uspto.gov/sites/default/files/patents/law/comments/aba-ipl_20130201.pdf (“reducing the number of RCE applications requires increasing education of ... examiners, with appropriate incentives”); Kenneth Fagin, https://www.uspto.gov/sites/default/files/patents/law/comments/fagin_20130311.pdf (“I believe the primary causes for the growing RCE backlog lie with the PTO”); Bruce Hayden https://www.uspto.gov/sites/default/files/patents/law/comments/hayden_20130308.pdf (“Better enforcement of MPEP requirements for proper examination and for marking OA as final”); Mark Levine, https://www.uspto.gov/sites/default/files/patents/law/comments/levine_20130212.pdf (“[T]he most significant factor contributing to the need to file an RCE ... is the poor and improper examination practices in first actions. ... Another possible factor contributing to the need to file an RCE is the tendency for examiner's to improperly make second actions final. This is so because the current count system at the USPTO incentivizes such practices.”)

time all the data were assembled, was in the mid-80% range. Appeal is a cost largely created by poor examination quality, not a cost created at the instance of applicants). In drafting § 41, Congress had the PTO's data in hand to understand the PTO's cost structure. Congress set the fees for appeal at a fraction of the actual cost. Congress could easily have had in mind that appeal fees should not penalize applicants for examiners' mistakes. Instead, Congress might well have believed that the PTO should have financial incentives and supervisory oversight to ensure that unfounded rejections are withdrawn before the PTO bears the cost of an appeal. The PTO's fee structure interferes with those (inferable) Congressional concerns.

	§ 41 fee	proposed fee	unit cost FY 2017
Notice of Appeal	540	800	17
Filing a Brief in Support of an Appeal	540	0	n/a
Forwarding an Appeal to the Board	unauthorized	2240	5147
Request for Oral Hearing	1080	1300	1566

And at any rate, for reasons discussed §§ I.B.1 and I.C, the PTO lacks statutory and constitutional authority to second guess Congress' policy balances encoded in the appeal fee line items.

E. Other specific examples of unlawful fees

A number of line items in the proposed fee schedule are problematic:

- **Maintenance fees.** The "Detailed Appendix" slides (slide 64) propose that the PTO wants to "restructure issue and maintenance fees," to rebalance the ratio between "back-end" maintenance fees vs. "front-end" processing fees. Congress already made the policy choice: initial filings should be cross-subsidized by maintenance fees, at approximately 50%.³⁰ Congress (by inference) felt it important to encourage filing, and allow successful patentees to cross-subsidize filing. Constitutionally, it is beyond the PTO's authority to second-guess Congress' policy balance and "tax" to effect the PTO's preference. Under the APA, this is rulemaking relying on "factors which Congress has not intended [the agency] to consider," one of the categories of agency action that is arbitrary and capricious nearly *per se*.³¹ The PTO departed from Congress' intent in 2013, and should move back.
- **Raising the late surcharge for maintenance fees** to "encourage" earlier payment. Congress determined that the public should have clear notice of abandonment on the 4th, 8th, and 12th anniversaries. The PTO disagrees, and thinks the public should know on the 3½, 7½, and 11½ anniversaries. The PTO identifies no statutory delegation of

³⁰ That is not just the statutory language; it's in the legislative history. Pub. L. 96-517, 94 Stat 3015 (Dec. 12, 1980); See H. Rep. 96-1307(I), 8-9 (1980) (patent applicants should bear the office's patent costs through the payment of fees split in equal amounts between application "processing" fees and post-grant "maintenance" fees).

³¹ *Motor Vehicle Mfrs. Ass'n v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

authority for it to hold such an opinion, let alone act on it. Nor does the PTO explain how any rational competitor could reasonably rely on a failure to pay a maintenance fee in the first half of the window to commence investment during the second half—no lawyer would advise a client to undertake the risk of commercial exploitation based on such flimsy information. If this is a good idea, then it is a good idea to secure through a proper law, by Congress.

III. The “operating reserve”

We agree in principle with the PTO’s operating reserve. But we see no statutory authorization.

The operating reserve is not fairly within the text of AIA § 10, which limits PTO fee collections to “only” aggregate costs. The House report reinforces this reading.³² Neither the 2012 Notice of Proposed Rulemaking nor the 2013 Final Rule notice discuss statutory authority for the operating reserve.³³ It is inconsistent with the IOAA, which bars agencies from collecting user fees to cover agency priorities, unless Congress grants express authority.

Further, the legislative history suggests that Congress intended that the PTO *not* have an operating reserve. In fall 2011, Sen. Coburn proposed an amendment that would have given the PTO an operating account outside the normal appropriations process, which (arguably) would have given the PTO the authority to raise funds that it could hold for its own future expenditures. That amendment was not adopted, because of constitutional concerns—an agency can only spend when the money is *appropriated*.

Sen. Coons’ “Big Data for IP Act” S.2601³⁴ would have added a statutory authorization for the operating reserve. But that did not become law.

A good idea is only a good idea if it’s legal. If the PTO has no statutory authority for the operating reserve, we urge the PTO to consider whether acting outside the law, just because it seems like a good idea, is in fact a good idea. The PTO only succeeds to the extent that the public is confident in the PTO’s commitment to the rule of law and its mission. Conversely, a lawless act by senior officials percolates down, and might contribute to a culture of disrespect for the rule of law within the rest of the agency. Respect for the rule of law builds good will with stakeholders outside the agency. Is the operating reserve worth compromising that?

³² See excerpts from the House report at § I.B.1 at page 5.

³³ Patent and Trademark Office, *Setting and Adjusting Patent Fees, Final Rule*, 78 Fed. Reg. 4212 (Jan. 18, 2013)

³⁴ <https://www.congress.gov/bill/115th-congress/senate-bill/2601>

IV. Procedural violations**A. Independent Offices Appropriations Act and Circular A-25**

The Federal Register Notice does not even mention the IOAA and circular A-25, which are the general framework statute and Presidential interpretation for agencies that charge user fees. How can an agency comply with a law that it so pointedly ignores?

B. Executive Order 12866

The NPRM states (84 Fed. Reg. at 37401, col. 1):

The Office did not identify any monetized costs and benefits of the proposed rule, but found that the proposed rule has significant qualitative benefits with no identified costs.

This statement strains credulity:

- The whole point of the rule is to raise fees, by hundreds of millions of dollars. “No identified costs?”
- The comment letters to PPAC identified substantial costs to the public for the DOCX problem, and additional costs are explained in this letter. “No identified costs?”
- The “annual active practitioner fee”—“no identified costs?”

But why has there never been an analysis of the alternative required by statute and the Constitution, raising all fees proportionally from the baseline set by Congress, with deviations only where the PTO has specific data to support a deviation? After all, that is the constitutionally required alternative—the current fee schedule, with its incentives here and disincentives there, is an unconstitutional “tax.” Considering only phony strawmen as “alternatives” is not compliant with the PTO’s obligations under the letter of the law,³⁵ and cannot be reconciled with the “regulatory philosophy” or spirit of the law. Artificially narrowing the options is arbitrary and capricious *per se*.³⁶ Indeed, developing and vetting alternatives is one of the essential goals of the notice and comment process.³⁷

C. Executive Order 13771

The NPRM states (84 Fed. Reg. at 37430 at col. 2):

This proposed rule is not expected to be subject to the requirements of Executive Order 13771 (Jan. 30, 2017) because this proposed rule is expected to involve a transfer payment.

³⁵ An “agency must consider reasonably obvious alternatives and, if it rejects those alternatives, it must give reasons for the rejection...” *Yale-New Haven Hosp. v. Leavitt*, 470 F.3d 71, 80 (2d Cir. 2006).

³⁶ *Pillai v. Civilian Aeronautics Board*, 485 F.2d 1018, 1027 (D.C. Cir. 1973).

³⁷ *Owner-Operator Independent Drivers Ass’n v. Fed Motor Co.*, 494 F.3d 188, 199–203 (D.C. Cir. 2007) (rule invalid when agency failed to disclose the data and assumptions on which it based its benefit-cost analyses); *Home Box Office Inc. v. Federal Communications Comm’n*, 567 F.2d 9, 36 (D.C. Cir. 1978) (“an agency proposing informal rule-making has an obligation to make its views known to the public in a concrete and focused form so as to make criticism or formulation of alternatives possible”).

The claim to the “transfer payments” exemption is false, for at least three reasons:

- The definition of “transfer payment” is in OMB Circular A-4.³⁸ Payments from the private sector to government for government consumption are not “transfer payments.”
- Any carve out from Executive Order 13771 for “transfer payments” is limited to “Federal *spending* regulatory actions that cause *only* income transfers between taxpayers and program beneficiaries” (that is, the side that results in payment to a private sector entity, not the government revenue side of the transaction), and “action that establishes a new fee or changes the existing fee for a service, *without imposing any new costs*,”³⁹ The “annual practitioner fee” and addition of a PDF surcharge are new fee collections from the private sector for consumption by government. Neither is within any carveout.
- OMB’s *Implementing Guidance* states the scope of E.O. 13771 such that E.O. 13771 covers at least the annual practitioner fee and surcharge for PDF filing: “[R]egulatory actions [that] impose requirements apart from transfers ... need to be offset to the extent they impose more than *de minimis* costs. Examples of ancillary requirements that may require offsets include *new reporting or recordkeeping requirements* or *new conditions, other than user fees*, for receiving a grant, a loan, or a permit.” The fee-setting portion of the rule, and the annual practitioner fee and PDF surcharge are directed to covered payments from the public to government, not transfer payments from one private sector person to another.

At least parts of the NPRM are covered by EO 12866 and 13771. The claim for complete exemption is false.

These statements are directed to OMB review under the Paperwork Reduction Act and Executive Orders 12866 and 13771, and the Small Business Administration under the Regulatory Flexibility Act. In all these proceedings, OMB and SBA act *ex parte*. The PTO is cautioned to observe Virginia Bar Rule 3.3(c).⁴⁰

D. The Regulatory Impact Statement fails to consider mandatory issues

This fee-setting regulation is “likely to result in ... annual effect on the economy of \$100 million or more,” E.O. 12866 § 3(f)(1), and thus requires a full Regulatory Impact Analysis under Circular A-4. The RIA in the NPRM only considers non-starter alternatives like not raising fees at all, setting all fees at actual cost, applying only inflation adjustment. Of course, against these nonstarter strawmen, the PTO’s preferred alternative looks really good. But that’s

³⁸ OMB Circular A-4, *Regulatory Analysis*, at 38 (Sept. 17, 2003), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf>

³⁹ Executive Order 13771, Reducing Regulation and Controlling Regulatory Costs (Jan. 30, 2017), <https://www.federalregister.gov/documents/2017/02/03/2017-02451/reducing-regulation-and-controlling-regulatory-costs> ; OMB Memorandum M-17-21, *Guidance Implementing Executive Order 13771*, Titled “Reducing Regulation and Controlling Regulatory Costs” Q&A 13 (Apr. 5, 2017), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2017/M-17-21-OMB.pdf>

⁴⁰ <https://www.vsb.org/pro-guidelines/index.php/rules/advocate/rule3-3/>

SEVENTY-THREE PATENT PRACTITIONERS

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not the way an RIA is supposed to work. The agency is supposed to compare the good approaches, not one plausible one against several bad ones.

A keyword search in the Regulatory Impact Analysis (both the 2019 RIA and the 2016 and 2013 RIA's) for words that ought to be there under OMB Circular A-4, aren't there. The required analysis is omitted.

The alternatives considered in the Regulatory Impact Analysis are strawmen, chosen to be unrealistic. Why is there no analysis of the proportional lockstep fee hike, relative to § 41 as a baseline?

The factors that an agency is directed to consider under Circular A-4 are designed to assist agencies in considering a range of regulatory alternatives, and to choose from among them to ensure that the agency considers all applicable laws, all applicable economic effects, and balances all regulatory priorities. As we noted in the opening to this letter, the laws are there to ensure that the PTO acts in the public interest. These laws are not "bureaucratic sport" or needless burden to be ignored.

Respectfully submitted,

Seventy-three patent practitioners

Matthew S. Anderson
Dallas, TX

Randall B. Bateman
Salt Lake City, UT

Arthur J. Behiel
Pleasanton, CA

Sid Bennett
Chicago, IL

Robert Blaha
Atlanta, GA

Adolph Bohnstedt
Albany, NY

Matthew J. Booth
Austin, TX

David Boundy
Cambridge, MA

Diana D. Brehob
Dearborn, MI

Roger L. Browdy
Washington, DC

Michael J. Brown
Livingston, NJ

Kathleen Chapman
Mason, NH

Gwendolyn G. Corcoran
Richardson, TX

Daniel Douglas
Far Hills, NJ

Maria Eliseeva
Boston, MA

Gerry J. Elman
Media, PA

William Eshelman
Front Royal, VA

Gary R. Fabian
Redwood City, CA

Daniel Feigelson
Rehovot, Israel

Luis Figarella PE
Nashua, NH

Ury Fischer
Coral Gables, FL

Lin Axiomethy Floyd
Media, PA

Betty Formby
Dallas, TX

Derek P. Freyberg, Ph.D.
Menlo Park, CA

Antoinette Giugliano
Beverly MA 01915

Elizabeth R. Hall
Houston, TX

Louise S. Heim
Mission Viejo, CA

Lawrence A. Husick
Southeastern, PA

David E. Henn
Fayetteville, NY

Krista S. Jacobsen
Campbell, CA

SEVENTY THREE PATENT PRACTITIONERS

United States Patent and Trademark Office

re *Setting and Adjusting Patent Fees During Fiscal Year 2020*

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September 27, 2019

Ronni S. Jillions
Washington, DC

Ronald R Kilponen
Novi, MI

Karen L Kimble
Sanford, MI

Karen B King
Boonton, NJ

Howard J Klein
Irvine, CA

Wendy Koba
Springtown, PA

Marylou Lavoie
Simsbury, CT

Mary M. Lee
Edmond, OK

Steven K Martin
Boston, MA

Jon Muskin
Lansdale, PA

Jeffrey D. Myers
Albuquerque, NM

Rick Neifeld
Fairfax, VA

Sam L. Nguyen
Palo Alto, CA

Carol Nottenburg
Renton, WA

Warren V. Norred
Arlington, TX

Sean O'Connell
Oklahoma City, OK

Carl Oppedahl
Summit County, CO

Neil R. Ormos
Arlington Heights, IL

Karen Dana Oster
Lake Oswego, OR

Henry Park
New York, NY

Miriam Paton
Toronto, Ontario, Canada

Lawrence Perry
New York, NY

Gerald T Peters
West Lebanon NH

Alex Pokot
Williams Bay, WI

Louis G Puls Jr.
Boulder, CO

David Rardin
Nashua, NH

Robert J. Rose
Escondido, CA

James Ryley
Los Angeles, CA

Richard A. Schafer
Houston, TX

Jeffrey E. Semprebon
Lebanon, NH

Charles E. Shemwell
Sunnyvale, California

Brian Siritzky, PhD
McLean, VA

William B. Slate
New Haven, CT

Richard Straussman
Roseland, NJ

Suzannah K. Sundby
Washington, DC

Judith A. Szepesi
Cupertino, CA

Alan Taboada
Shrewsbury, NJ

Korbin S Van Dyke
Sunol, CA

Louis Ventre, Jr.
Oakton, VA

Edward K Welch II
Naples, FL

Warren Wolfeld
Half Moon Bay, CA

Bruce Young
Le Mars, IA

Howard Zaretsky
Rochester NY

Attachments:

Exhibit A: Ron D. Katznelson, *The U.S. Patent Office's Proposed Fees Under the America Invents Act—Part I: The Scope of the Office's Fee-Setting Authority*, 85 BNA PAT. TM & COPYRIGHT J. 206 (Dec. 7, 2012).

Exhibit B: A copy of this letter prepared from the .docx of this letter after processing by “compatible” word processors

Exhibit A

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PATENTS

This two-part article discusses the Patent and Trademark Office's recent proposed rulemaking setting new patent user fees. In Part 1 the author argues that the PTO can raise fees in accordance with its aggregate costs but lacks authority to set national patent policies and skew certain fees to discourage or encourage a particular service. The author also asserts that the America Invents Act does not vest with the PTO discretion to set the level of its operating reserve—a determination reserved solely for congressional appropriations. In an upcoming Part 2, the author will discuss specific fees and their public policy implications, will critique the PTO costing methodology used to set fees, and will propose a simple legally compliant approach for setting fees by increasing fees to match the aggregate costs while maintaining their relative magnitudes so as to preserve the salient congressional patent policy goals.

The Patent Office's Proposed Fees Under the America Invents Act —Part 1: The Scope of the Office's Fee-Setting Authority



BY RON D. KATZNELSON

On Sept. 6, 2012, the Patent and Trademark Office published a notice of proposed rulemaking titled "Setting and Adjusting Patent Fees," 77 Fed. Reg. 55,028 (Sept. 6, 2012). The NPRM proposes to set fees under the fee-setting authority in the Leahy-Smith

America Invents Act of 2011.¹ There is a need to adequately fund the operation of the PTO, after years of being under-resourced. The office has made substantial progress in reducing its backlog in the last few years. It is imperative, however, that the office exercise care in its stewardship of the fee-setting process and not exceed its authority under the law. The following sections

¹ Pub. L. 112-29, 125 Stat. 284 (Sept. 16, 2011). See Sections 10 and 11.

examine the legal scope of the office's fee-setting authority.

1 Recovery of aggregate costs is the *only* purpose of the PTO's fee setting authority.

Section 10 of the AIA grants the PTO authority to adjust fees only to recover aggregate costs, but the office must still comply with other relevant law. For example, the office must also consider the Independent Offices Appropriations Act of 1952, 31 U.S.C. § 9701, and conduct its fee-setting process in compliance with the Anti-deficiency Act of 1982, 31 U.S.C. § 1512, the Chief Financial Officers Act of 1990, 31 U.S.C. § 902, the Administrative Procedure laws in 5 U.S.C. § 551 et seq. and 5 U.S.C. § 701 et seq., the Regulatory Flexibility Act of 1980, 5 U.S.C. § 601 et seq., the Paperwork Reduction Act of 1980, 44 U.S.C. § 3501 et seq., and its limited authority under 35 U.S.C. § 2. Without an express congressional delegated authority to the contrary, the office's fee setting authority must be exercised within *all* current law, not just the AIA.

Since 1952, agencies with fee-setting authority have been governed by the IOAA. If the PTO considered the IOAA in its rulemaking deliberations, there is no record of it. The opinion of the PTO's general counsel in support of the fee-setting rule and the rationales stated in the NPRM do not reflect the PTO's awareness of the statute or its associated case law.³

The IOAA, 31 U.S.C. § 9701, provides in relevant part the following:

(b) The head of each agency (except a mixed-ownership Government corporation) may prescribe regulations establishing the charge for a service or thing of value provided by the agency. Regulations prescribed by the heads of executive agencies are subject to policies prescribed by the President and shall be as uniform as practicable. Each charge shall be—

- (1) fair; and
- (2) based on—
 - (A) the costs to the Government;
 - (B) the value of the service or thing to the recipient;
 - (C) public policy or interest served; and
 - (D) other relevant facts.

(c) This section does not affect a law of the United States—

- (1) prohibiting the determination and collection of charges and the disposition of those charges; and
- (2) prescribing bases for determining charges, but a charge may be redetermined under this section consistent with the prescribed bases.

² *Federal Communications Commission v. Nextwave Personal Communications*, 537 U.S. 293, 305 (2003) (“when two statutes are capable of co-existence, it is the duty of the courts, absent a clearly expressed congressional intention to the contrary, to regard each as effective.” Internal quotation and citations omitted).

³ See General Counsel Bernard J. Knight Jr., Memorandum, PTO Patent Fee Setting, http://www.uspto.gov/about/offices/ogc/Fee_Setting_Opinion.pdf, (Feb. 10, 2012) (silent on IOAA); NPRM (silent on IOAA).

Subsections (b)(2)(A-D) are written in the conjunctive and have been so construed by the courts. Following the Supreme Court's landmark decision in *NCTA*⁴ interpreting the IOAA, the U.S. Court of Appeals for the District of Columbia Circuit rendered several key pertinent opinions. As to the “cost to the Government” and the “value of the service or thing to the recipient,” the D.C. Circuit explained “that the proper standard is not value *derived* by the recipient but rather value *conferred* on the recipient. In our view, this standard requires the fee assessed to bear a reasonable relationship to the *cost of the services rendered to identifiable recipients*”⁵ (emphasis added).

As to the IOAA's “public interest served” consideration, the D.C. Circuit explained that “[i]n *NCTA*, the [Supreme] Court invalidated the cable television annual fee because it charged cable operators a fee based in part upon ‘public policy or interest served’ ”.⁶ The D.C. Circuit further explained that the Supreme Court held that, although some language of the IOAA “appears to allow a fee with such elements, charging in part for an independent public interest served (rather than solely for value conferred upon the recipient) makes the assessment a tax rather than a fee.”⁷ The D.C. Circuit observed that the Supreme Court “concluded that the IOAA must be narrowly read to prohibit this since there was no indication in the statute of an intent on the part of Congress to delegate the power to tax to the [agency].”⁸ Rather, the IOAA's Subsections (b)(2)(C-D) identify considerations that require specific and express statutory authorizing language elsewhere for agencies to encode policy through fees. Such language does not exist in the AIA.

While Section 10 of the AIA authorizes the PTO to charge fees and generally recover aggregate costs, it makes no specific reference that sets aside the IOAA. The AIA § 10(a)(1)(2) provides:

Fees may be set or adjusted under paragraph (1) **only** to recover the aggregate estimated costs to the Office for **processing, activities, services, and materials** relating to patents [] including administrative costs of the Office **with respect to such patent [] fees** . . . (emphasis added).

Moreover, the AIA's legislative history forbids the PTO from setting fees based on “the public interest served” or any “other relevant facts” not explicitly identified: it states that the AIA allows the PTO to set or adjust fees “so long as they **do no more** than reasonably compensate the PTO for the services performed.”⁹ In setting fees not in accordance with the costs but for

⁴ *National Cable Television Association, Inc. v. United States*, 415 U.S. 336 (1974) (“*NCTA*”).

⁵ *Capital Cities Communications Inc. v. Federal Communications Commission*, 554 F.2d 1135, 1138 (1976) (“*Capital Cities*”); *Seafarers International Union v. U.S. Coast Guard*, 81 F.3d 179, 185 and n.4 (D.C. Cir. 1996) (“the measure of fees is the cost to the government of providing the service, not the intrinsic value of the service to the recipient”); For a detailed discussion of the court's construction of “value to the recipient” standard see *National Association of Broadcasters v. Federal Communications Commission*, 554 F.2d 1118, 1130, n. 28 (D.C. Cir. 1976) (“*NAB*”).

⁶ *NAB*, 554 F.2d, at 1128, citing *NCTA*, 415 U.S. at 341.

⁷ *NAB*, 554 F.2d, at 1128.

⁸ *NAB*, 554 F.2d, at 1128, citing *NCTA*, 415 U.S. at 342.

⁹ House Report 112-98, Part 1, (June 1, 2011), p. 49.

“public interest” purposes, the PTO seeks to *do more* than merely recover its aggregate costs—it seeks to implement through the fee structure policies which Congress did not intend. Neither the NPRM nor the PTO general counsel’s opinion addresses these limitations.

Because there is nothing in the AIA or its legislative history to compel a different result, the AIA must be regarded as being in *pari materia* with the IOAA—that is, statutes dealing with the same subject matter or having a common purpose—to be construed together as part of an overall statutory scheme. Where this principle applies, courts look to the body of law developed under the IOAA for guidance in construing the other statute.¹⁰ In fact, the AIA clarifies that the PTO’s authority is precisely cabined within the IOAA. To the extent that the patent statutes “prescribe bases for determining charges” as contemplated by Subsection (c)(2) of the IOAA, these bases must be found explicitly in the statute.

1.1 The PTO’s proposed fee schedule

The NPRM details the key proposed fee changes and costs in Tables 4-36.¹¹ It then provides what it calls an “overall comparison” of patenting costs, but it does so in anecdotal cases,¹² arriving at meaningless conclusions

such as “initial appeals fees decrease,” when what matters is costs through prosecution. The NPRM fails to account for the actual incidence rate for each fee item in patent applications and therefore fails to estimate the average fee increase for applicants. This is particularly important when one considers the radical fee increases proposed for claims, Requests for Continued Examination (“RCE”) and appeals. When these incident rates are accounted for, a far different picture emerges.

Table 1 compares the average fees for large entities, demonstrating that the average fees for a patent application incurred before it issues or abandoned (front-end fees) would increase by 42 percent. Because a smaller share of small entity applicants tend to file RCEs or appeals (perhaps due to their limited financial resources), the average front-end fee increase they would incur under the PTO proposal is 38 percent (see Table 2.) The strongest indication that the PTO is deviating materially from Congress’ fee policies is the fact that it proposes increases for the front-end fees that are *double* that of the increases in back-end fees, which are dominated by the maintenance fees.

While the analysis in Table 1 and Table 2 does not include elasticity effects on filing and incident rates due to higher fees, it is indicative of the relative focus of the office on increasing disproportionately fees that can suppress applicant filings for its own administrative convenience, rather than this nation’s interests in securing inventors’ rights. So much for the office’s purported policy goal of “fostering innovation.” The significance of this point and the public policies associated with the front to back end fee ratios are discussed in Part II of this article.

Table 1. Proposed fee costs for average essential patenting activities (large entity).

Fee Item	Average incidence per unit	Present fees set by AIA		USPTO Proposed fees (NPRM)		Large Entity cost increase over that enacted in AIA
		Large-Entity fee	Large-Entity average cost	Large-Entity fee	Large-Entity average cost	
	u	f_1	$f_1 u$	f_2	$f_2 u$	
For filing, search & examination	1	\$1,250	\$1,250	\$1,600	\$1,600	28%
For each independent claim in excess of 3	0.50 <i>a</i>	\$250	\$125	\$420	\$210	68%
For each claim in excess of 20 total claims	3.26 <i>a</i>	\$60	\$195	\$80	\$261	33%
For a Request for Continued Examination	0.55 <i>b</i>	\$810	\$444	\$1,350 <i>g</i>	\$739	67%
For an Appeal:						
Filing Notice of Appeal	0.120 <i>c</i>	\$620	\$74	\$1,000	\$120	
Filing an Appeal Brief	0.078 <i>c</i>	\$620	\$48			
Filing an Appeal	0.048 <i>d</i>			\$2,000	\$96	
Total for Appeals			\$122		\$216	77%
Average Front End Application fees			\$2,136		\$3,025	42%
Issue fee	1	\$1,740	\$1,740	\$960	\$960	45%
Maintenance Fees:						
At 3.5 years	0.99 <i>e</i>	\$1,130	\$1,123	\$1,600	\$1,590	42%
At 7.5 years	0.71 <i>e</i>	\$2,850	\$2,029	\$3,600	\$2,563	26%
At 11.5 years	0.50 <i>e</i>	\$4,730	\$2,365	\$7,400	\$3,700	56%
Average Back End Patent fees			\$7,257		\$8,814	21%
Total Average patent fees			\$9,394		\$11,839	26%

a. FY 2010 Fee Report, Appendix 1 to USPTO FY 2012 President’s Budget, p.139 (“Fee Report”). Number of excess claims is the ratio between the total fee collection for each fee category and the fee set for that category. Incidence is the number of Large-entity excess claims normalized by the number of all Large-entity UPR applications in FY 2010.

b. Fee Report, p.140; Number of RCE filings is the ratio between the total fee collection for each fee category and the fee set for that category. Incidence is Large-entity RCE filings normalized by the number of all Large-entity UPR applications in FY 2010.

c. Fee Report p.141 and USPTO Response to FOIA Request No. F-12-00105. Normalized by number of Large-Entity UPR applications in FY 2010.

d. FY 2010 appeal filings at BPAI at <http://www.uspto.gov/ip/boards/bpai/stats/receipts/index.jsp>. Normalized by Large-Entity share of appeals (note c) and the total number of UPR applications in FY 2010.

e. USPTO Annual Report FY2011, p.63. FY 2010 renewal rates.

g. RCE fees is average of first (\$1200) and second or subsequent (\$1700) RCE fees, weighted per usage rates of 70% and 30% respectively as published at 77 FR 55043.

Table 2. Proposed fee costs for average essential patenting activities (small and micro entities)

Fee Item	Average incidence per unit	Present fees set by AIA		USPTO Proposed fees (NPRM)			Small-Entity cost increase over that enacted in AIA	Micro-Entity cost increment over Small Entity cost enacted in AIA
		Small Entity fee	Small Entity average cost	Small Entity fee	Small Entity average cost	Micro Entity average cost		
		f_1	$f_1 u$	f_2	$f_2 u$	$0.5f_2 u$		
For filing, search & examination	1	\$625	\$625	\$800	\$800	\$400	28%	36%
For each independent claim in excess of 3	0.54 <i>a</i>	\$125	\$68	\$210	\$114	\$57	68%	16%
For each claim in excess of 20 total claims	4.35 <i>a</i>	\$30	\$131	\$40	\$174	\$87	33%	33%
For a Request for Continued Examination	0.30 <i>b</i>	\$405	\$121	\$675 <i>g</i>	\$202	\$101	67%	17%
For an Appeal:								
Filing Notice of Appeal	0.072 <i>c</i>	\$310	\$22	\$500	\$36	\$18		
Filing an Appeal Brief	0.047 <i>c</i>	\$310	\$15					
Filing an Appeal	0.029 <i>d</i>			\$1,000	\$29	\$15		
Total for Appeals			\$37	\$1,500	\$65	\$33	77%	11.7%
Average Front-End Application fees			\$982		\$1,356	\$678	38%	-31%
Issue fee	1	\$870	\$870	\$480	\$480	\$240	45%	72%
Maintenance Fees:								
At 3.5 years	0.99 <i>e</i>	\$565	\$562	\$800	\$795	\$398	42%	29%
At 7.5 years	0.71 <i>e</i>	\$1,425	\$1,015	\$1,800	\$1,282	\$641	26%	37%
At 11.5 years	0.50 <i>e</i>	\$2,365	\$1,183	\$3,700	\$1,850	\$925	56%	22%
Average Back-End Patent fees			\$3,629		\$4,407	\$2,203	21%	-39%
Total Average patent fees			\$4,611		\$5,763	\$2,881	25%	-38%

a. FY 2010 Fee Report, Appendix 1 to USPTO FY 2012 President's Budget, p. 139 ("Fee Report"). Number of excess claims is the ratio between the total fee collection for each fee category and the fee set for that category. Incidence is the number of small-entity excess claims normalized by the number of all small-entity UPR applications in FY 2010.

b. Fee Report, p. 139. Number of RCE filings is the ratio between the total fee collection for each fee category and the fee set for that category. Incidence is small-entity RCE filings normalized by the number of all small-entity UPR applications in FY 2010.

c. Fee Report, p. 141 and USPTO Response to FOIA Request No. F-12-00105. Normalized by number of Small-Entity UPR applications in FY 2010.

d. FY 2010 appeal filings at BPAI at <http://www.uspto.gov/ip/boards/bpai/stats/receipts/index.jsp>. Normalized by Small-Entity share of appeals (note c) and the total number of UPR applications in FY 2010.

e. USPTO Annual Report FY 2011, p.63. FY 2010 renewal rates.

g. RCE fee is average of first (\$600) and second or subsequent (\$850) RCE fees, weighted per usage rates of 70% and 30% respectively as published at 77 FR 55043.

2 The PTO is endowed with neither power nor expertise to set policy for the Nation's patent system.

In an ambitious attempt of grabbing power reserved for Congress, the PTO asserts that the AIA "Section 10 authority includes *flexibility* to set individual fees in a way that furthers *key policy considerations*, while taking into account the cost of the respective services."¹³ (Emphasis added). Neither the AIA nor any other law contains a basis for this assertion. Yet, the NPRM further explains that in setting its proposed fee structure the PTO "considers three *key policy factors*: (1) Fostering innovation; (2) facilitating effective administration of the patent system; and (3) offering patent prosecution options to applicants."¹⁴ While these goals are laudable in the abstract, there is no law that empowers the PTO to set fees based on such policy factors and its proposed rule is ultra vires. Rather, as shown below, Congress retained for itself the power to regulate and balance these policy factors.

Section 2(b)(2) of Title 35 empowers the PTO to "establish regulations, not inconsistent with law," for several enumerated purposes, *none of which include the broad policy factors* which the PTO claims to be within its discretion in setting fees. While the Patent Act authorizes the PTO to promulgate rules governing "the conduct of proceedings in the Office" (§ 2(b)(2)(A)), it does not empower the office to regulate the "administration of the *patent system*." When Congress delegates au-

thority to the PTO to exercise its discretion pursuant to public interests such as "the integrity of the *patent system*" it does so *explicitly* in statutes *specific* to certain proceedings (*see* AIA § 6, 35 U.S.C. § § 316(b), 326(b) governing inter partes and post grant reviews).

When Congress delegates authority to the PTO to act pursuant to public interests such as "fostering innovation," it does so *explicitly*, for example by providing for:

- Subsidy of 50 percent discount on small-entity fees (Act of 1982 § 1, § 2(b)(2)(E), § 41(h)(1));
- Subsidy of 75 percent discount on micro-entity fees (AIA § 10(g), adding 35 U.S.C. § 123);
- Authority to refine the definition of "micro-entity" (AIA § 10(g), § 123(e));
- Facilitate and expedite the processing of patent applications filed electronically (§ 2(b)(2)(C));
- A 75 percent discount on filing fee for electronic filing of applications ((AIA § 11, § 41(h)(3));
- Subsidy of application processing costs by authorizing post-grant charges for maintenance fees on issued patents (Act of 1982 § 3(b), AIA § 11, § 41(b); maintenance fees set to recover 50 percent of patent processing costs.¹⁵);

¹⁵ Pub. L. 96-517, 94 Stat 3015 (December 12, 1980); *See* H. Rep. 96-1307(I), 8-9 (1980) (patent applicants should bear the office's patent costs through the payment of fees split in equal amounts between application "processing" fees and post-grant "maintenance" fees). Prior to its taking effect, the 1980 law was amended by Pub. L. 97-247 on Aug. 27, 1982 ("Act of 1982"). To effect full user funding of PTO, the latter doubled

¹³ NPRM, at 55028, emphasis added.

¹⁴ NPRM, at 55033. *See* the PTO's accompanying discussion on these three "policy factors."

- Authority to expedite and examine out of turn patent applications that are important to the national economy or national competitiveness (AIA § 25 adding § 2(b)(2)(G)); and
- Dissemination of patent publications to public libraries at low fees (Act of 1982 § 3(d), AIA § 11, § 41(d)(2)(B)).

When Congress delegates authority to the PTO to act pursuant to public interests such as increasing flexibility and “offering patent prosecution options to applicants,” it does so *explicitly*, for example by statutes providing for:

- Authority to prioritize and examine out of turn patent applications upon payment of an additional fee (AIA § 10(h));
- Automatic extension of time (upon payment of a fee) for applicant’s reply to an action on an application (Act of 1982 § 5, AIA § 11, § 41(a)(8));
- Authority to refund fees on abandoned applications (AIA § 11, § 41(d)(1)(D));
- Supplemental examination of issued patents (AIA § 12, adding § 257);
- Awarding a filing date even to applications submitted with missing parts (Act of 1982 § 5, amending § 111)
- Deeming any paper to be considered filed in the PTO when it is deposited in the U.S. Postal Service (Act of 1982 § 12, amending § 21)
- Ability to correct inventorship in an application with no prejudice (Act of 1982 § 6(b), amending § 256)
- Revival of unintentionally abandoned applications (Act of 1982 § 3(a), § 41(a)(7))

Note that many of the public policy driven provisions listed above were enacted alongside significant fee legislation in the Act of 1982 and the AIA, indicating Congress’ awareness of the inexorable connection between patent fees and the very public policy goals which the PTO claims to be within its regulatory dominion. Note also that when Congress does delegate to the PTO limited fee-based policy power, it does so under close supervision.¹⁶

Congress has not intended the PTO to consider factors other than its aggregate costs of enumerated items. The PTO’s seemingly constructive policy goals do not save its proposed fee schedule rule from being “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.”¹⁷ By making up its own policy goals not found in statute, the PTO’s proposed fee structure is *ultra vires* and a *prima facie* arbitrary and capricious rule *per se*: “Normally, an agency rule

both the patent processing and the maintenance fees from the levels authorized by Pub. L. 96-517, maintaining their relative proportions wherein each was intended to produce 50 percent of the office’s patent fee revenue. The increased new fees went into effect on October 1, 1982.

¹⁶ See AIA § 10(g) codifying § 123(e), requiring the PTO to inform the congressional judiciary committees at least 3 months before any PTO redefinition of “micro-entity” takes effect.

¹⁷ 5 U.S.C. § 706(2)(A).

would be arbitrary and capricious if the agency has relied on factors which Congress has not intended it to consider.”¹⁸

2.1 The PTO may not set fees to “encourage or discourage any particular service”

Throughout the NPRM, the PTO notes that it proposes to set fees for purposes that include “facilitating the effective administration of the patent system”—a euphemism for fees set to affect applicants’ behavior. Indeed, the NPRM explains that it would “help the Office to effectively administer the patent system by encouraging applicants to engage in certain activities.”¹⁹ For example, fees for independent claims in excess of 3 are increased by 68 percent—not based on cost to the PTO—but “to facilitate the prompt conclusion of prosecution of an application.”²⁰ Despite proposing one of the steepest fee increases, the office provides no cost data related to claim fees in its costing methodology document²¹ and admits that for claim fees, “the PTO does not typically maintain historical cost information separate from that included in the average overall cost of activities during patent prosecution.”²² Indeed, the NPRM admits that these are “fees that will not be set using cost data.”²³

Noting that 30 percent of RCEs are second and subsequent RCEs, the NPRM proposes to increase fees for such applications by 83 percent and posits without any factual support that “[t]hose applications that cannot be completed with the first RCE do not facilitate an effective administration of the patent system with the prompt conclusion of patent prosecution.”²⁴ It therefore concludes that “[s]etting the second and subsequent RCE fees higher than the fee for the first RCE helps to recover costs for activities that strain the patent system”²⁵—clearly indicating that the higher fee is set to discourage this particular service on no basis other than a non-sequitur assertion that a second RCE prolongs prosecution of an application.

As to these PTO policy goals, the PTO general counsel’s opinion states: “[w]hile Section 41 authorizes setting fees to recover costs of individual services, Section 10 authorizes setting fees for a broad range of services to recover *aggregate* costs”²⁶ (emphasis in the original text). The opinion then leaps to an incredible inference: “Section 10 thus permits any individual patent fee to be set or adjusted so as to *encourage or discourage any particular service*, so long as the aggregate revenues for all patent fees match the total costs of the Patent operation”²⁷ (emphasis added.) This conclusion undergirds

¹⁸ *Motor Vehicle Manufacturers Association v. State Farm Mutual Automobile Insurance Co.*, 463 U.S. 29, 43 (1983) (“*State Farm*”) (emphasis added.)

¹⁹ NPRM at 55,054.

²⁰ NPRM at 55,030.

²¹ PTO Section 10 Fee Setting—ActivityBased Information and Costing Methodology, at http://www.uspto.gov/aia_implementation/aia_section_10_cost_supplement.pdf.

²² NPRM at 55,054.

²³ NPRM at 55,040–41.

²⁴ NPRM at 55,043.

²⁵ NPRM at 55,043.

²⁶ PTO General Counsel’s opinion, p. 3.

²⁷ PTO Patent Fee Setting Opinion, Memorandum of Bernard J. Knight, Jr., General Counsel (February 10, 2012), p. 4. At http://www.uspto.gov/aia_implementation/fee_setting_opinion.pdf.

the NPRM's fee structure under the office's ultra vires efforts to promulgate patent policy rules that are "not in accordance with law" and therefore unlikely to withstand judicial review.

Under the IOAA, the PTO has no authority to adjust fees "to encourage or discourage a particular activity."²⁸ This is because fee charges set to achieve public interest policy goals are taxes. While "taxes that seek to influence conduct are nothing new,"²⁹ the power to levy such taxes is reserved for Congress. The Supreme Court explained this in *NCTA* by noting that "[t]he law-maker may, in the light of the 'public policy or interest served,' make the [tax] heavy if the lawmaker wants to discourage the activity; or it may make the levy light if a bounty is to be bestowed. [] Such assessments are in the nature of 'taxes' which under our constitutional regime are traditionally levied by Congress."³⁰ The PTO's proposed fee structure would therefore infringe "on Congress' exclusive power to levy taxes."³¹ Rather, specific and express statutory authorizing language is required for agencies to encode public policy through fees.³²

The AIA provides no such express authority and in any event the statute and legislative history forbids the PTO from doing so: the statute permits the office to set fees "only to recover the aggregate estimated costs to the Office"³³ and its accompanying House Report states that the AIA allows the PTO to set or adjust fees "so long as they **do no more** than reasonably compensate the PTO for the services performed."³⁴ In setting fees not in accordance with the costs but for purposes of discouraging certain filing activities, the PTO seeks to **do more** than merely recover its aggregate costs—it seeks to implement through the fee structure policies to suppress applicants' filings which Congress did not intend.

Had Congress wanted the PTO to set fees higher for applications that "do not facilitate an effective administration of the patent system" it would have done so. Rather, Congress has historically resisted dozens of legislative attempts for patent fee-setting schemes based on such arbitrary unsupportable judgments. While space does not permit listing these attempts exhaustively here, a few examples spanning nearly two centuries include: recent times, when Congress refused to adopt PTO's proposed progressive fee increases in 2002;³⁵ more than half a century ago when the PTO

proposed an excess claim fee for each claim above a total of 5 "to screen" a "deluge" of applications;³⁶ and as early as 1830, when Congress rejected an increase in patent fees to discourage filing of "meritless applications."³⁷

The PTO has no authority to throttle its workload by suppressing incoming filing rates. Congress has specifically instructed the PTO how to deal with the workload of all application types and services to avoid the "strain" on its resources: in § 10(a)(1)(2) of the AIA the office is directed to set fees for major items in a manner that *recovers* its "aggregate estimated costs;" and § 41(d)(2) provides that the PTO "shall establish fees for all other processing, services, or materials relating to patents. . . to recover the estimated average cost to the Office of such processing, services, or materials. . ." When the PTO complies with these statutory directives for cost recovery and acquires the commensurate resources, there is no such thing as "activities that strain the patent system." In taking on a policy role not expressly specified in the statute, the PTO exceeds its authority under the AIA. The PTO does not possess plenary fee-setting authority simply because Congress has endowed it with *some* authority to set fees.³⁸

2.2 The PTO has neither mandate, nor agency expertise to determine the economically efficient levels for patent fees.

One cannot presume the PTO to be a neutral disinterested policy-balancer that can set fees at economically efficient levels because it has often demonstrated having a prima facie conflict with its direct administrative stake in the outcome. More importantly, as an agency with the sole task and mandate to determine *patentability* of applications it receives, the agency lacks the necessary information and expertise to determine *any* matters bearing on *infringement* of patents and the necessary measures applicants use for appropriating returns from inventions in ways that *secure investments* that "foster innovation." These include the scope, the number of claims, and the number of applications or RCEs *necessary* to obtain claims that *adequately* protect inventions in the market place. The PTO lacks the information and expertise to determine what aspects of patent applications "do not facilitate an effective adminis-

²⁸ *Seafarers International Union of North America v. U.S. Coast Guard*, 81 F.3d 179, 183 (D.C. Cir. 1996) ("Such policy decisions, whereby an agency could, for example, adjust assessments to **encourage or discourage a particular activity**, would, according to the [Supreme] Court, 'carr[y] an agency far from its customary orbit' and infringe on Congress's exclusive power to levy taxes." Citing *National Cable Television Association Inc. v. United States*, 415 U.S. 336, 341 (1974) ("NCTA") (emphasis added).)

²⁹ *National Federation of Independent Business v. Sebelius*, 567 U.S. ___, 132 S. Ct. 2566, 2596 (2012).

³⁰ *NCTA*, 415 U.S. at 341.

³¹ *Seafarers*, 81 F.3d at 183.

³² *NAB*, 554 F.2d, at 1128, citing *NCTA*, 415 U.S. at 342.

³³ AIA § 10(a)(1)(2).

³⁴ House Report 112-98, Part 1, (June 1, 2011), p. 49.

³⁵ PTO, 21st Century Strategic Plan, fee proposal to Congress (June 2002), FAQ at <http://web.archive.org/web/20021005230103/http://www.uspto.gov/web/offices/com/strat2001/faq.htm#q53> ("fees for excess claims will be based on a highly progressive system aimed at *strictly limiting* appli-

cations containing very high numbers of claims. In order to prevent "end-runs" of the claims fees, high fees are also being imposed on *excess continuations* and on the submission of patentably indistinct claims." Emphasis added.) These proposed fees are compared to a subsequently-revised schedule at <http://www.uspto.gov/web/offices/com/strat21/feeproposalcomparison.htm>.

³⁶ Rejected a provision in H.R. 4983 proposing a \$5 excess claim fee for each claim above a total of 5: *To Increase Certain Patent And Trademark Fees*, House of Representatives, Subcommittee No. 3 of the Committee on the Judiciary, 84th Cong., 1st Sess., statement of Robert C. Watson, Commissioner of Patents, p. 24 (June 3, 1955) ("A substantial fee is necessary to make certain that the Patent Office is not *deluged* with applications which disclose and claim devices of little value." Emphasis added.)

³⁷ See 6 *Gale & Seaton's Register of Debates in Congress* 377 (21st Cong., 1st Sess. 1830).

³⁸ *Railway Labor Executives' Association v. National Mediation Board*, 29 F.3d 655, 670 (D.C. Cir. 1994) (en banc) (An agency does not "possess[] plenary authority to act within a given area simply because Congress has endowed it with some authority to act in that area.")

tration of the patent system.” It lacks the institutional visibility into the invention development and financing process and thus lacks information and expertise required to balance the public interests that it purports to consider—“fostering innovation” and “facilitating effective administration of the patent system.”

A result of this lack of expertise and the office’s disconnect from invention appropriation and patent valuation practices is its facially flawed analysis for the purported economic gain associated with its radical fee increase proposal. In its Regulatory Impact Analysis that accompany the NPRM,³⁹ the PTO projects a resultant reduction of patent pendency that it believes will contribute an incremental net monetized benefit to patent stakeholders and society of nearly 7 billion dollars for the period FY 2013–2017.⁴⁰ The PTO explains that “[r]educing pendency increases the private value of a patent because the more quickly a patent is granted, the more quickly the holder can commercialize the innovation.”⁴¹ Applying a discount rate to a purported earlier acquisition of the lump sum patent value, the office then calculated the increase in patent value from the reduction in pendency under its proposed alternative relative to a set baseline. However, this analysis is predicated on counterfactual assumptions on the invention commercialization process and that the patent value is acquired and accrues to patentees *only after* patent grant.

If this analysis were credible, the PTO would have had very little trouble long ago in persuading Congress that a \$7 billion return to the economy is worth much more than any other possible return on government investment of \$1 billion that Congress diverted from the office. While there are substantial benefits for reduced pendency, the market reality is that the major portion of patent value is normally accrued shortly after the *application filing date*—not the patent issue date. Patent value as an exclusion tool is recognized well before it is available for legal enforcement—less than 1 percent of patents are litigated. For example, dramatic pre-money valuation changes specifically attributable to patent rights held by venturebacked startups occur mostly after the patent application filing dates and well before the grant dates.⁴² Similar empirical evidence in specific industries for this major pre-grant value accrual is found in the biotechnology industry,⁴³ the software industry,⁴⁴ and the semiconductor industry.⁴⁵ Moreover,

the PTO entirely ignored the value of applicants’ provisional rights “to obtain a reasonable royalty from any person who, during the period beginning on the date of *publication of the application*” infringes a claim in the published patent application⁴⁶—well before the patent issues.

By ignoring “an important aspect of the problem”—the major value of pending patent applications—the PTO calculates that pendency reduction by 6 months would result in an increase of private patent value of \$1,700 to \$2,600.⁴⁷ If only the lower range for this incremental value is conservatively assumed, one necessarily obtains an incremental private patent value of more than \$7,000 for a pendency reduction of two years. But the office’s Prioritized Examination track already affords applicants an opportunity to reduce their patent application pendency by two years for a ‘mere’ \$4,800 incremental fee.

The PTO should have recognized that if its incremental private patent value estimate were reasonably within the correct range, the majority of applicants would find the Prioritized Examination track a bargain they could not refuse. Yet, in FY 2012 only about 5,000 requests were made for Prioritized Examination of applications (*less than 1 percent* of those filed in the year) with an average pendency reduction of about two-and-a-quarter years compared to regular-track pendency.⁴⁸ Evidently, the PTO used this incredible fictional economic value of pendency reduction to support an arbitrary and capricious fee rule. This is because the agency “entirely failed to consider an important aspect of the problem [and] offered an explanation for its decision that runs counter to the evidence before the agency”⁴⁹ pertaining to the private value of pendency reduction based on its own Prioritized Examination records.

3 The AIA vests no discretion with the PTO to set fees based on its desired “operating reserve” level.

The NPRM states that the PTO proposes to set its fees higher based, among other factors, on “building a three-month patent operating reserve by FY 2017 to support a sustainable funding model.”⁵⁰ It states the “additional revenue from the proposed fee schedule will also recover the aggregate cost of building a three-month patent operating reserve by FY 2017,”⁵¹ and that in order to achieve this estimated target, “small and micro entities would pay some higher fees than under some of the other alternatives considered.”⁵² The PTO hastens to “assure” the public that under the discretion it purports to possess, it would be “reducing patent fees

³⁹ PTO, *Regulatory Impact Analysis—Setting and Adjusting Patent Fees in accordance with Section 10 of the Leahy-Smith America Invents Act*, Notice of Proposed Rulemaking, Appendix A, (September 6, 2012). www.uspto.gov/aia_implementation/aia_section_10_ria_doc-omb_9-6-12.pdf.

⁴⁰ NPRM at 55,029; Regulatory Impact Analysis (“RIA”) at Appendix A, Tables A-1 and A-2.

⁴¹ NPRM at 55,032.

⁴² C. Häussler, D. Harhoff, and E. Müller, *To Be Financed or Not . . . : The Role of Patents for Venture Capital-Financing* (2012). ZEW - Centre for European Economic Research Discussion Paper No. 09-003. Available at <http://dx.doi.org/10.2139/ssrn.1393725>.

⁴³ J.A. Baum and B.S. Silverman, “Picking Winners or Building Them? Alliance, Intellectual, and Human Capital as Selection Criteria in Venture Financing and Performance of Biotechnology Start-Ups,” 19 *Journal of Business Venturing* 411–436 (2004).

⁴⁴ Iain M. Cockburn and Megan J. Macgarvie, “Patents, Thickets and the Financing of Early-Stage Firms: Evidence

from the Software Industry,” 18 *Journal of Economics and Management Strategy*, No. 3, 729–773 (Fall 2009).

⁴⁵ D.H. Hsu and R.H. Ziedonis, “Resources as Dual Sources of Advantage: Implications for Valuing Entrepreneurial-Firm Patents,” *Management Department Working Paper* (August 2012), at <http://www-management.wharton.upenn.edu/hsu/inc/doc/papers/david-hsu-signaling.pdf>

⁴⁶ See 35 U.S.C. § 154(d).

⁴⁷ RIA at 184.

⁴⁸ PTO, *Prioritized Examination Statistics*, http://www.uspto.gov/patents/init_events/Track_One.jsp.

⁴⁹ *State Farm*, 463 U.S. at 43.

⁵⁰ NPRM at 55,030.

⁵¹ NPRM at 55,028.

⁵² NPRM at 55,073.

once the operating reserve reaches an optimal level”⁵³—clearly admitting that these charges bear no “reasonable relationship to the cost of the services rendered to identifiable recipients.” The AIA and the IOAA accord the PTO no discretion to set fees based on its desired level of an “operating reserve” because contrary to the PTO “creative accounting” assertion, the unobligated “reserve” is *not* a “cost.”

3.1 Unobligated cash for PTO “operating reserve” is not a “cost” cognizable under the AIA or the IOAA.

AIA § 10(a)(1)(2) enumerates the only cost elements that the PTO may use for “the aggregate estimated costs to the Office.” These are: “processing, activities, services, and materials relating to patents”—none of which are “costs” for building a reserve; and “administrative costs of the Office with respect to such patent [] fees”—none of which are “costs” for building a reserve.⁵⁴

The PTO explains that its proposed fees are based on known costs plus “an operating reserve for longterm financial stability to pay for *unknown costs* or offset revenue loss due to the fluctuation in demand for service.”⁵⁵ This logic is perverse because when “demand for services” declines—a condition which reduces the work the office must perform—the aggregate costs must also decline, which cannot result in higher fees. Furthermore, “unknown costs” are by definition non-estimable and are therefore not cognizable as part of the “aggregate estimated costs to the Office” under the AIA. Finally, the IOAA “requires the fee assessed to bear a reasonable relationship to the cost of the services rendered to *identifiable recipients*”⁵⁶—neither the particular services nor the recipients are identifiable here under unobligated reserve funds because the PTO admits that the “costs” are “unknown.”

The Patent Public Advisory Committee, with whom the PTO must consult prior to setting fees under the AIA,⁵⁷ recognized in its memorandum soliciting comment from the public that the “cost of building a patent operating reserve” is not cognizable under the AIA:

a. Should the PTO maintain an operating reserve?

⁵³ PTO, FY 2013 President’s Budget, p. 9 (February 13, 2012).

⁵⁴ FY13 Budget, p. 8 (Feb. 13, 2012) (PTO admits that building a reserve is not an “administrative cost,” by stating that the office has worked to “identify options for setting patent fees to only recover the aggregate estimated cost of the patent operations, including *administrative costs* to the PTO **and** a reasonable *operating reserve*.” (emphasis added).)

⁵⁵ PTO, Executive Summary: Patent Fee Proposal, Submitted to the Patent Public Advisory Committee, p. 20, (Feb. 7, 2012) at http://www.uspto.gov/aia_implementation/fee_setting_-_ppac_hearing_executive_summary_7feb12.pdf#page=20

⁵⁶ *Capital Cities* 554 F.2d at 1138 (emphasis added.); *Seafarers*, 81 F.3d at 183 (“fees cannot be charged based on a perceived furthering of public policy goals if those fees are unrelated to a specific service provided by the agency to an identifiable recipient.” (emphasis added)); Executive Office of the President, Office of Management and Budget, Circular A-25, User Charges, § 6, (revised 1993), www.whitehouse.gov/omb/circulars_a025 (“A user charge, as described below, will be assessed against each *identifiable recipient* for special benefits derived from Federal activities beyond those received by the general public.”)

⁵⁷ AIA § 10(d).

b. If “yes,” do you believe it is reasonable for applicants to pay fees *above and beyond the fees needed to cover aggregate costs* to fund the operating reserve?⁵⁸ (emphasis added).

Whether reasonable or not, the PTO does not have the statutory authority to charge “fees *above and beyond the fees needed to cover aggregate costs*” to the office. As seen in Table 3, it appears that the PTO uses the term “operating requirements” to describe its estimated operating costs and the term “Aggregate Cost Estimates” to include its “Planned Deposit in Operating Reserve.” That the office plans to charge for providing patent services more than its aggregate costs per application is evident in Table 3 from the fact that the office is projected to dispose of more applications (production units) than it receives (working on more units by reducing the backlog from 634,000 to 358,000) while still having over \$750 million left over. Another troubling aspect of PTO cost accounting for purposes of setting fees is that it results in significantly higher cost (“operating requirements”) per Production Unit than that under the PTO’s actual performance as published for prior fiscal years.

In any event, the PTO is not precluded from establishing an operating reserve from fees it collects (and receives through congressional appropriations) that are based solely on aggregate costs cognizable under the law. However, it must establish such reserve in accordance with law, as explained below.

3.2 The PTO’s “operating reserve” is a contingent outlay for meeting its liabilities and accordingly can only be funded and appropriated from the office’s unearned revenue account.

The *Budgetary Reserve* section of the U.S. Government Accountability Office’s publication on standard terms, definitions, and classifications explains that “[e]xcept as specifically provided by law, no reserves shall be established other than as authorized under the Antideficiency Act (31 U.S.C. § 1512).”⁵⁹ The Antideficiency Act as amended requires that an agency make obligations or expenditures in accordance with an *apportionment* or *reapportionment* made by the appropriate agency official, wherein such apportionment is *only of funds appropriated* by Congress.⁶⁰ This act provides in pertinent part in 31 U.S.C. § 1512(c) that reserves be established as an *apportionment* from appropriated funds as follows:

(1) In apportioning or reapportioning an appropriation, a reserve may be established only—

(A) to provide for contingencies;

(B) to achieve savings made possible by or through changes in requirements or greater efficiency of operations; or

(C) as specifically provided by law.

(2) A reserve established under this subsection may be changed as necessary to carry out the scope and

⁵⁸ Patent Public Advisory Committee, Memorandum: PPAC Questions for Fee Setting Hearings, p. 1, (Feb. 7, 2012) at www.uspto.gov/about/advisory/ppac/ppac_questions_for_fee_setting_hearing.pdf

⁵⁹ GAO, *A Glossary of Terms Used in the Federal Budget Process* (5th ed.), GAO-05-734SP, p. 25, (September 2005).

⁶⁰ 31 U.S.C. § 1517(a).

Table 3. PTO's financial projections based on its proposed fees.

Item (Dollars in millions) (a)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Planned "Operating Requirements"			\$2,549	\$2,702	\$2,809	\$2,846	\$2,945
Less Other Income			18	18	18	18	18
Net "Operating Requirements"			2,531	2,684	2,791	2,828	2,927
Planned Deposit in Operating Reserve			73	200	143	125	95
Total Aggregate "Cost Estimate"			2,604	2,884	2,934	2,953	3,022
Aggregate Revenue Estimate			2,604	2,884	2,934	2,953	3,022
Target Operating Reserve			637	676	702	712	736
Operating Reserve Ending Balance		121	194	394	537	662	757
Utility, plant, and reissue (UPR)	(c)		(b)				
Applications filed	506,924	533,308	565,300	599,200	632,200	666,900	700,300
Production Units (PU)	508,549	548,051	620,600	671,900	694,200	645,200	656,200
End of Year Backlog	690,967	633,812	529,100	421,600	329,500	328,400	358,000
Examination Capacity (Year end)	6,690	7,831	8,700	8,600	8,300	8,300	8,200
Ratios:	(c)						
Average Examination capacity in FY	6,409	7,261	8,266	8,650	8,450	8,300	8,250
PU per Examiner	79.3	75.5	75.1	77.7	82.2	77.7	79.5
"Operating requirement" per PU	\$3,594	\$3,617	\$4,078	\$3,995	\$4,020	\$4,383	\$4,461
Aggregate "cost estimate" per PU			\$4,196	\$4,292	\$4,226	\$4,577	\$4,605
"Operating requirement" per examiner			\$306,213	\$310,289	\$330,296	\$340,723	\$354,788
Aggregate "cost estimate" per examiner			\$315,044	\$333,410	\$347,219	\$355,783	\$366,303

(a) Table 3, NPRM at 55035; (b) Table 2, NPRM at 55034; (c) USPTO Annual Report FY 2012, "Op. Req./PU from p. 19.

objectives of the appropriation concerned. When an official designated in section 1513 of this title to make apportionments decides that an amount reserved will not be required to carry out the objectives and scope of the appropriation concerned, the official shall recommend the rescission of the amount in the way provided in chapter 11 of this title for appropriation requests. Reserves established under this section shall be reported to Congress as provided in the Impoundment Control Act of 1974 (2 U.S.C. 681 et seq.).

Thus, the Antideficiency Act in § 1512(c)(1)(A) permits the PTO to build an "operating reserve" "to provide for contingencies" which the PTO contemplated, *but only from funds previously appropriated by Congress*.

The office contends that it seeks an "operating reserve" sufficient to continue to provide patent services for a period of three months in the event that the revenue stream is disrupted. Because the first office action backlog is much longer than 3 months, the PTO would be spending the reserve only on processing *older* applications for which fees have been previously collected as *unearned revenue*.⁶¹ The IOAA requires that the unearned fee revenue from the identifiable service recipients in the backlog fund the cost of the services rendered to such identifiable recipients during the time that the reserve is used. The PTO must therefore seek congressional appropriations from the unearned revenue account to fund the reserve. It cannot fund the reserve by higher fee charges on new applications. Indeed, as discussed below, this is precisely how congress provided for an operating reserve under the AIA, but the PTO seems to ignore it.

⁶¹ Unearned revenue represents fees that have been received by the PTO for requested services that have not been substantially completed. This includes patent applications in the backlog for which the PTO has already collected upfront processing fees. As of FY 2012 end, the unearned patent revenue was \$765 million. See PTO, FY 2012 Annual Report, at 99.

3.3 The PTO undermines Congress's statutory scheme for establishing a reserve

Congress enacted a particular approach for establishing a reserve for the PTO. AIA § 22 added § 42(c)(2) as follows:

"There is established in the Treasury a Patent and Trademark Fee Reserve Fund. If fee collections by the Patent and Trademark Office for a fiscal year exceed the amount appropriated to the Office for that fiscal year, fees collected in excess of the appropriated amount shall be deposited in the Patent and Trademark Fee Reserve Fund. *To the extent and in the amounts provided in appropriations Acts*, amounts in the Fund shall be made available until expended only for obligation and expenditure by the Office in accordance with paragraph (3)" (emphasis added).

First, the AIA does not empower the PTO to increase its "operating reserve" with funds not first appropriated by Congress. Second, Congress envisioned accumulation of reserves solely based on increases in filings beyond projections, resulting in fee collections for additional workload. The money thus deposited in the Patent and Trademark Fee Reserve Fund is unearned revenue from which Congress would appropriate funds for any PTO "operational reserve." The level of the reserve established in § 42(c)(2) is derived from the degree of volatility in fee collection compared to projections wherein the reserve is used to average *over time* upward and downward fluctuations in fee collections to match the costs to the office. This approach is consistent with GAO's view of the principles that the PTO should employ in establishing its operating reserve⁶²

⁶² GAO, *Patent and Trademark Office: User Fee Review*, p. 8, GAO-12-514R, (April 25, 2012) ("an operating reserve is important for fee-funded programs to match fee collections to average program costs *over time* and because program costs do not necessarily decline with a drop in fee collections." Emphasis added.)

and with PTO's prior years' practice by mere change of terminology. Prior to FY 2010, the PTO called "unobligated balance brought forward" what it now calls an "operating reserve." It reserved a portion of the amount Congress made available annually through appropriations as a designated unobligated balance, which could be carried over for use in future years. This is possible because the PTO is generally appropriated no-year funds—with no fiscal year limitation, wherein the pertinent appropriating statute provides that the funds "shall be made available until expended."

While the PTO can make a compelling presentation to Congress and recommend a particular level of reserves to be appropriated from unearned revenues and the Patent and Trademark Fee Reserve Fund, it is clear that under the AIA, Congress *reserved for itself that decision* and the PTO has no authority to set its reserve levels. Congressional intent as to the appropriate level of PTO "operating reserves" was made quite clear during last year's appropriation process when the House Committee on Appropriations recommended PTO's appropriations:

Carryover funds.—The Committee is concerned that the PTO has established an operating reserve whereby it intends to carry over funds from one fiscal year to the next as a "cushion." For fiscal year 2012, PTO has proposed an operating reserve to help the agency maintain its pace of activities in years when fee collections diminish or fall below projections or during years of planned spending above collections. While some level of carryover may be advisable, the PTO is proposing to have an operating reserve of \$342,470,000 at the end of fiscal year 2012. The Committee believes that given the backlog and

pendency rates, *holding nearly 13 percent of its budget as a reserve into the next fiscal year is not a good management practice for an agency that is so far behind in whittling down its workload.*" Accordingly, the PTO, in consultation with the Secretary of Commerce, is directed to propose in its fiscal year 2013 budget submission an exhibit stating specifically what the PTO intends to fund using carryover balances.⁶³

It is remarkable that right after Congress expresses reservations regarding PTO's planned reserve of 1/8 of its annual budget, the PTO now plans to build a reserve that *doubles* that fraction to 1/4 of its annual budget. That the reserve cannot be a "cost" component in PTO's fees is also clear from the basic fact that its level is subject to congressional determination—an appropriation determination that has no effect on the "aggregated estimated costs to the Office." Consequently, the PTO's theory clearly leads to an absurd result, which it neglected to address in the NPRM: the office would have to reduce its fees when Congress refuses to accept its proposed reserve levels.

It appears, however, that through this proposed fee rule which "hides" the reserve in every dollar of fee collections, the PTO is attempting to circumvent congressional intent of having specific control over budgetary reserve levels as codified in the AIA.

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To be continued

⁶³ House Report 112-169 (July 20, 2011) at 17.

Exhibit B

Fifty Patent Practitioners

September 27, 2019

Via Email fee.setting@uspto.gov

Brendan Hourigan, Director of the Office of Planning and Budget
Mail Stop—Office of the Chief Financial Officer
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313–1450

Re: Setting and Adjusting Patent Fees During Fiscal Year 2020, 84 Fed. Reg. 37398 (Jul. 31, 2019)

Dear Mr. Hourigan:

We write as patent practitioners to comment on a Notice of Proposed Rulemaking (NPRM), *Setting and Adjusting Patent Fees During Fiscal Year 2020*.¹ REF _Ref523926138 \w \h *

MERGEFORMAT The signatories are members of several email listserv groups, a community of patent practitioners. The signatories taken together filed over 14,000 patent applications at the PTO during the past ten years, and taken together they paid over \$35 million dollars in fees to the PTO in the past ten years.

We are deeply troubled by several aspects of this proposal:

- The PTO is an executive branch agency, not a private-sector company. The PTO is subject to many laws that are not recognized in the proposal. Various elements of this proposal violate laws that are not discussed.
- There are a number of plain errors in the factual statements and rationale for the DOCX proposal, the annual practitioner fee proposal, and several of the “Rulemaking Considerations” sections.
- The costs of several of the proposed rules are substantial; yet the only discussion is “The Office did not identify any monetized costs and benefits of the proposed rule, but found that the proposed rule has ... no identified costs.” This sentence implies more about the quality of the Office’s analysis than it does about the merits of the proposed rules. This letter identifies *dozens* of costs that were not accounted for as required by various statutes.

¹ U.S. Patent and Trademark Office, *Setting and Adjusting Patent Fees During Fiscal Year 2020*, Notice of Proposed Rulemaking, 84 Fed. Reg. 37378 (Jul. 31, 2019).

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IV.Procedural violations30A. Independent Offices Appropriations Act and Circular A-25 30B. Executive Orders 12866 30C. Executive Order 13771 31D. Failure of the Regulatory Impact Statement 32**I. Laws that govern fee-setting****A. Two different laws clarify that the PTO may not use fee-setting as a policy lever to “encourage,” “discourage,” “incentivize,” or “disincentivize”**

The legislative history of the AIA makes abundantly clear that the PTO may not use fee-setting as a policy lever. Fee setting may be used *only* to recover aggregate costs. Likewise, the United States Constitution denies agencies the authority to set fees for anything other than cost recovery—setting fee levels to “encourage or discourage” is a “tax,” and agencies do not have authority to tax.

Assembling all the relevant laws yields the following algorithm that the PTO must use to set fees:

1. Start with the statutory fee numbers in 35 U.S.C. § 41(a), (b), (d), and (h). The PTO may increase all fees in proportional lockstep to a level that “recovers the aggregate estimated costs.” Congress exercised its policy-setting authority when it embedded various cross-subsidy levels into § 41. Once Congress has done so, the PTO cannot raise one fee or lower another to incentivize or disincentivize applicant conduct, to “encourage innovation,” or any of the other policy-based rationales stated in the NPRM. This is discussed in §§ I.B.1 and I.C.
1. The PTO has authority to break out of this proportional lockstep on the following conditions:
 - a. For any service or processing activities where the PTO performs some affirmative act or delivers some material object, that are not covered by the specific enumerated fees of § 41, the PTO may price the service at cost.
 - b. The Patent Act gives the Director unfettered discretion to set a few fees, with no criteria. For example, §§ 311(a) and 321(a) give the Director authority to set fees for IPRs and PGRs with essentially no constraint, other than that they be “reasonable” after “considering ... aggregate costs.” This is discussed at § I.D.
 - c. When the Patent Act authorizes fee-setting exempt from cost recovery. Examples include § 2(b)(2)(G) for prioritized examination, § 312(a)(1) for IPR petitions, and § 322(a)(1) for PGR petitions. These three statutes grant exemptions from cost recovery or the § 41 schedule.
 - d. Where the PTO has specific line-item data showing that a specific line item’s costs have risen at a rate faster or slower than general costs (it would be the *rate of change*

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that matters, not the cost itself). In that case, the PTO could exercise the “cost of providing the service” authority of the [Independent Offices Appropriations Act](#) (IOAA) to break that line item out of the proportional lockstep, by the degree of the faster or slower cost rise.

1. However, there are things the PTO cannot do:

- e. The PTO may not set fees to encourage or discourage any activity (see §§ [I.B.1](#) and [I.C](#)).
- f. The PTO may not create new fees where no fees are “*established, authorized, or charged*” in Title 35, and there is no affirmative material, service, or processing provided.
- g. The PTO may not re-allocate fees among the categories specified in § 41; new fees may be created only where the PTO has a specific statutory authorization (see § [I.B.2](#)).
- h. The PTO may not set fees without a benefit-cost analysis under the Paperwork Reduction Act and Executive Order 12866—for example, the PTO may not reduce its own costs if that would increase costs on the public disproportionately (see § I.F).

The NPRM explains four “key fee-setting policy factors” (84 Fed. Reg. at 37402 col.

1-2):

- promoting innovation strategies;
- aligning fees with the full cost of products and services;
- facilitating the effective administration of the U.S. patent system; and
- offering patent processing options to applicants.

If it’s “policy,” it’s not within the PTO’s power to address by fees.² REF_Ref523926138 \w \h *

MERGEFORMAT Bullet 2 is within the PTO’s § 10 authority. Bullets 1 and 3 are not. Bullet 4 may be authorized when the PTO has a specific authorization such as § 2(b)(2)(G) (prioritization) or § 41(d)(2)(A) first sentence (requiring cost recovery and only cost recovery for services not otherwise covered in § 41), but not otherwise.

The NPRM concedes that fees are being set to incentivize, disincentivize, and to “set fees to facilitate the effective administration of the patent and trademark systems.” That is not within the PTO’s authority. It is contrary to statute, and unconstitutional.

A. Section 10 of the America Invents Act

1. **The AIA legislative history is clear: PTO may set fees *only* to recover aggregate cost—Congress specifically *removed* any implication of authority to use fees as a policy lever**

The relevant section of the AIA reads as follows (emphasis added):

(a) FEE SETTING.—

² The broadest grant of “policy” authority is in 35 U.S.C. § 2(a)(2)(A)—the Director has authority to “provide policy direction ... for the Office” but not for the public or patent system.

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(1) IN GENERAL.—The Director may set or adjust by rule ***any fee established, authorized, or charged under title 35***, United States Code, or the Trademark Act of 1946 (15 U.S.C. 1051 et seq.), ***for any services performed by or materials furnished by***, the Office, subject to paragraph (2).

(2) FEES TO RECOVER COSTS.—Fees may be set or adjusted under paragraph (1) ***only to recover the aggregate estimated costs*** to the Office for processing, activities, services, and materials relating to patents (in the case of patent fees) and trademarks (in the case of trademark fees), including administrative costs of the Office with respect to such patent or trademark fees (as the case may be).

Section 10 as originally introduced in 2011 read as follows (2011 Cong. Rec. Sen. S139-S140 (Jan. 25, 2011), see also version as presented for Senate floor debate, Cong. Rec., at S945 (Feb. 28, 2011) (emphasis added):

SEC. 9. FEE SETTING AUTHORITY.

(a) FEE SETTING.—

(1) IN GENERAL.—The Director shall have authority to set or adjust by rule any fee established or charged by the Office under sections 41 and 376 of title 35, United States Code, or under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113), ***or any other fee established or charged by the Office under any other provision of law, notwithstanding the fee amounts established or charged thereunder***, for the filing or processing of any submission to, and for all other services performed by or materials furnished by, the Office, provided that patent and trademark fee amounts are in the aggregate set to recover the estimated cost to the Office for processing, activities, services and materials relating to patents and trademarks, respectively, including proportionate shares of the administrative costs of the Office.

Note that the January-through-March Senate version arguably allows the PTO to move fee income around as it likes, “notwithstanding the fee amounts established or charged [by § 41],” so long as “fee amounts are in the aggregate set to recover the estimated cost.”

This language was slightly amended by Sen. Leahy’s floor debate manager’s amendment (Cong. Rec. at S950 (Feb. 28, 2011), and at S1037 (Mar. 1, 2011)), though the broad “notwithstanding” discretion remained in the bill through Senate passage on March 8, 2011 (Cong. Rec. S1389 (Mar. 8, 2011)).

When the bill moved to the House, the bill had the final-passage language (H.R. Rep. No. 112-98, at 23 (Jun. 1, 2011)):

- The “notwithstanding” clause was removed.
- The “any other provision of law” clause was removed.
- The word “only” was added as a qualifier on “to recover the aggregate estimated costs.”

The section-by-section in the House Report makes clear that these changes, and their effect, was fully intentional (H.R. Rep. No. 112-98, at 49-50) (emphasis added):

Fee-setting authority

a) Agency fee setting authority

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... The USPTO has argued for years that it must have fee-setting authority to administer properly the agency and its growing workload. The Act allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, *so long as they do no more than reasonably compensate the USPTO for the services performed.*

...

The House report continues, at page 78:

Section 11. Fees for patent services.

The Act includes the current patent fee schedule in the text [now § 41]. This schedule represents a reference point for any future adjustments to the fee schedule by the Director.

The addition of the word “only” was entirely intentional, and intended to remove the PTO’s discretion to use fees as a policy lever to “incentivize” or “encourage” or to accomplish any goal other than “to recover the aggregate estimated costs”—that is the *only* “policy lever” the PTO has. The language is not “the PTO shall charge no more than necessary to reasonably compensate;” the language is that fees shall “*do no more than* reasonably compensate.” Likewise, the legislative history makes abundantly clear that the removal of the “*notwithstanding the fee amounts established or charged thereunder*” is entirely intentional, and is a directive to the PTO to track § 41 as a “reference point.”

Both the January introduction and the September final-passage versions of the statute make clear that the PTO has discretion to include general and administrative fees in its user fee recovery base (unlike other agencies, see § I.D). However, the June House bill and its discussion in the House Report makes clear that the PTO has *only* that authority, and does *not* have discretion to use user fees as a policy lever.

1. AIA § 10 sets limits on fee setting authority.

AIA § 10 only permits setting fees “*established, authorized, or charged under title 35,*” and within that, only “*for any services performed by or materials furnished*” by the PTO, but nowhere authorizes creating new fees or restructuring existing fees. The legislative history, specifically the removal of the “notwithstanding” clause from § 10, makes clear that the PTO must work with the § 41 fee schedule, and cannot willy-nilly create new fees without a specific statutory authorization (see § I.B.3 and the text that was *not* enacted, at page). For most fees, the legislative history (see page) states that Congress intended the PTO to use the existing § 41 as a “reference point.”

There are exceptions, including:

- § 2(b)(2)(G) for prioritized examination;
- § 41(d)(2)(A) first sentence, fees for services not otherwise covered in § 41;
- § 376(a) and (b) for PCT national stage entry; and
- § 382 and § 389(c) for Hague convention design applications.

These contrasting exceptions prove the rule—if § 41 covers a fee area, that is the “reference point,” and the PTO lacks discretion to substitute its policy judgement for Congress’.

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1. What are the fees “established, authorized, or charged under title 35”?

Because AIA § 10(a)(1) only authorizes fee setting for “any fee *established, authorized, or charged under title 35*,” and even in that case, only for “for any services performed by or materials furnished by, the Office” it is essential to understand which fees fit in which pigeonhole. As discussed in § [I.B.1](#) above, Congress made abundantly clear that the authority of Section 10 is constrained by the various fees scheduled throughout titles 35 and 15:

- 35 U.S.C. § 41(a), (b), (d), and (h) “establish” most fees, and set baseline amounts.
- § 41(d)(2)(A), first sentence, authorizes the PTO to create new fee items for “other processing, services, or materials relating to patents *not specified in this section*.”
- § 122(e)(1) (third party submissions) authorizes “such fee as the Director may prescribe.”
- § 132(b) (RCEs) authorizes “The Director may establish appropriate fees for such continued examination.”
- § 156(h) (patent term extension) authorizes that “The Director may establish such fees as the Director determines appropriate to cover the costs to the Office.”
- § 257(d)(1) (supplemental examination) directs “The Director shall, by regulation, establish fees for the submission of a request for supplemental examination of a patent.”
- § 261 (recording of assignments) authorizes (but does not require) a fee.
- § 311(a) and § 321(a) require the Director to establish a fee for IPR and PGR petitions.
- § 376(a) and (b) (PCT national stage entry) and § 382 and § 389(c) (Hague convention design applications) are unique: these are the only delegations of authority to the Director to choose what items are fee-bearing *and* what amount.

Other fees are not subject to AIA § 10.

A. The Constitution and the Supreme Court’s definition of “tax”

The current proposal is a “tax,” not a user fee. The Supreme Court and D.C. Circuit explain that the line between “taxes” and “user fees” lies with agency purpose. A “user fee” is a fee set for reasons of neutral cost-recovery. On the other hand, any fee set for any policy reason, “public interest,” to “encourage or discourage a particular activity,” etc. is a “tax.” The PTO overstepped its authority in 2013, and propagates the error in this fee-setting proposal.

The AIA *does* waive a statutory constraint that applies to all other agencies—other agencies may set user fees only to cover costs *to a specific party*, and not to cover general administrative costs, and costs of providing benefits to the public (see § I.D). The AIA waived that, and allows the PTO to recover all costs of patent operations.

BUT—the constraint of law that the AIA did *not* waive—and could not possibly waive because it is a constitutional constraint on the executive branch—is that the PTO may not “tax.” And that means that even with the AIA, the PTO may *not* “adjust assessments to encourage or discourage a particular activity.”

The United States Constitution provides in Article I sec. 8 clause 1 provides that the power to “lay and collect Taxes” lies with Congress, not the executive branch. Art. I sec. 7 clause 1 provides that “All Bills for raising Revenue shall originate in the House of Representatives.”

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The Supreme Court and D.C. Circuit have interpreted the constitutional taxing power in a series of agency user fee cases. The current state of constitutional limits on agency use of fees to incentivize or disincentivize behavior is summed up in a D.C. Circuit case:

Such policy decisions, whereby an agency could, for example, adjust assessments to encourage or discourage a particular activity, would, according to the [Supreme] Court, ‘carr[y] an agency far from its customary orbit’ and infringe on Congress’s exclusive power to levy taxes.³

A much more detailed explanation of the constitutional limits on fee-setting can be found in an article by Ron Katznelson, which we have attached as an exhibit.⁴

B. The Independent Offices Appropriations Act (IOAA) and Circular A-25

The Independent Offices Appropriations Act of 1952, 31 U.S.C. § 9710, is the basic set of guiding principles for agency user fees. OMB Circular A-25⁵ is the OMB guidance for implementation, which the Supreme Court has cited as an authoritative interpretation. The Supreme Court and D.C. Circuit have interpreted the IOAA to impose several constraints:

1. Congress may lay taxes to “encourage” or “discourage,” as discussed in § [I.C](#), but not agencies.⁶
3. Most agencies may set fees only for specific services to a specific “identifiable recipient,” at the cost of providing that service or the value to the recipient, but may not recover agency general operating costs.⁷
2. Most agencies may set user fees to cover the lesser of agency cost of providing services and things that the agency provides, or “value to the recipient,” but the agency may not charge for benefits to the general public or other societal benefits.⁸

³ *Seafarers International Union v. U.S. Coast Guard*, 81 F.3d 179, 183, 185 n.4 (D.C. Cir. 1996), quoting *National Cable Television Association Inc. v. United States*, 415 U.S. 336 (1974); cf. *National Federation of Independent Businesses v. Sebelius*, 567 U.S. 519, ___, 132 S.Ct. 2566, 2594-95 (2012) (because the Affordable Care Act has an exaction designed to incentivize behavior, it is a “tax” and a valid exercise of Congress’ taxing authority).

⁴ Ron D. Katznelson, *The U.S. Patent Office’s Proposed Fees Under the America Invents Act—Part I: The Scope of the Office’s Fee-Setting Authority*, 85 BNA PAT. TM & COPYRIGHT J. 206 (Dec. 7, 2012), attached as an exhibit, available at <https://works.bepress.com/rkatznelson/70>.

⁵ <https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf>

⁶ *National Cable Television Association Inc. v. United States*, 415 U.S. 336, 340-41 (1974) (NCTA); *Seafarers International Union v. U.S. Coast Guard*, 81 F.3d 179, 183, 185 n.4 (D.C. Cir. 1996); see also *Federal Power Commission v. New England Power Co.*, 415 U.S. 345, 351 (1974) (“NEPCO”) (fees set to reflect “economic climate” are “taxes,” and thus impermissible).

⁷ NCTA, 415 U.S. at 343; *Seafarers*, 81 F.3d at 183.

⁸ NEPCO, 415 U.S. at 349.

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3. Where the agency has specific line item data to show both the “value of the service to the recipient” and the “reasonable cost incurred” to provide that service, an agency may charge the lesser of those two amounts.

The PTO is special in this respect—AIA § 10(a)(2) gives the PTO a carve-out from one of the provisions of the IOAA, in the form of authority to recover general and administrative costs. However, of the constraints set by the IOAA, AIA § 10 waives only bullet 3. The explicit wording of AIA § 10(a)(1) waives bullet 3 only for those fees “*established, authorized, or charged under title 35,*” but the legislative history makes clear that the PTO is to be entirely self-funding, so that would likely be sufficient authorization to build general operating costs into other fees as well.

The prioritized examination statute, § 2(b)(2)(G), and IPR and PGR petitions statutes, § 311(a) and § 321(a), specifically exempt these fees from bullet 3—these fees can be set at something other than cost recovery. “Value to the recipient” may be a good measure under bullet 4.

Fees without statutory grounding are not within § 10, and thus are either barred outright, or are subject to the four constraints of the IOAA.

A. Executive Order 12866 and OMB Circular A-4

Executive Order 12866 is the basic benefit-cost executive order. In his first weeks in office, President Trump reminded all agencies of E.O. 12866 and one of its important implementing guidance documents, the *Bulletin on Agency Good Guidance Practices*.^{9 REF}

_Ref523926138 \w \h * MERGEFORMAT These two provide important guidance to the PTO. In relevant part, E.O. 12866 reads:

Section 1. Statement of Regulatory Philosophy and Principles.

(a) *The Regulatory Philosophy.* Federal agencies should promulgate only such regulations as are required by law, are necessary to interpret the law, or are made necessary by compelling public need, such as material failures of private markets to protect or improve the health and safety of the public, the environment, or the well-being of the American people. In deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating. Costs and benefits shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider.

⁹ See Office of Management and Budget, *Guidance Implementing Executive Order 13771, Titled ‘Reducing Regulation and Controlling Regulatory Costs’*, M-17-21, § 1 (Apr. 5, 2017) (“[A]gencies must continue to assess and consider both the benefits and costs of regulatory actions, including deregulatory actions, when making regulatory decisions, and issue regulations *only upon* a reasoned determination that benefits justify costs” (emphasis added)); Office of Management and Budget, Memorandum, *Interim Guidance Implementing Section 2 of the Executive Order of January 30, 2017, Titled “Reducing Regulation and Controlling Regulatory Costs”*, https://www.whitehouse.gov/sites/whitehouse.gov/files/briefing-room/presidential-actions/related-omb-material/interim_guidance_reducing_regulations_controlling_regulatory_costs.pdf (Feb. 2, 2017) (“Agencies should continue to adhere to OMB’s 2007 Memorandum on Good Guidance Practices.”).

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Further, in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.

(b) *The Principles of Regulation.* To ensure that the agencies' regulatory programs are consistent with the philosophy set forth above, agencies should adhere to the following principles, to the extent permitted by law and where applicable:

(1) Each agency shall identify the problem that it intends to address (including, where applicable, the failures of private markets or public institutions that warrant new agency action) as well as assess the significance of that problem.

(2) Each agency shall examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct and whether those regulations (or other law) should be modified to achieve the intended goal of regulation more effectively.

...

(5) When an agency determines that a regulation is the best available method of achieving the regulatory objective, it shall design its regulations in the most cost-effective manner to achieve the regulatory objective. In doing so, each agency shall consider incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity.

(6) Each agency shall assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.

...

(8) Each agency shall identify and assess alternative forms of regulation and shall, to the extent feasible, specify performance objectives, rather than specifying the behavior or manner of compliance that regulated entities must adopt.

...

(11) Each agency shall tailor its regulations to impose the least burden on society, including individuals, businesses of differing sizes, and other entities (including small communities and governmental entities), consistent with obtaining the regulatory objectives, taking into account, among other things, and to the extent practicable, the costs of cumulative regulations.

...

The Office of Management and Budget elaborated on the economic analysis required by E.O. 12866 for any regulation that may reasonably be expected to "have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities." Guidance and methodological implementation of

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E.O. 12866 are provided in OMB Circular A-4.¹⁰ REF_Ref523926138 \w \h * MERGEFORMAT Some of the required components in a Regulatory Impact Analysis include:

- Identify a range of regulatory approaches.¹¹ REF_Ref523926138 \w \h * MERGEFORMAT
- Estimate the benefits and costs—both quantitative and qualitative—of the proposed regulatory action and its alternatives
- Identify the Consequences of Regulatory Alternatives
- Quantify and Monetize the Benefits and Costs
- Evaluate Non-quantified and Non-monetized Benefits and Costs
- Characterize uncertainty in benefits, costs, and net benefits.

E.O. 12866 § 1(b)(2) requires the PTO to “examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct.” Most of the policy goals of the fee schedule could be addressed by internal reforms to reduce costs, as an alternative to raised fees. For example, IEEE-USA gave an extensive set of comments on how internal PTO processes and incentives could be restructured to reduce costs to the PTO and to applicants.¹² REF_Ref523926138 \w \h * MERGEFORMAT The NPRM identifies no exemption from E.O. 12866 that permits the PTO to forego this examination.

A. The Paperwork Reduction Act

The Paperwork Reduction Act, 44 U.S.C. § 3506(c)(2) has its own notice-and-comment requirement, which most agencies run in parallel with the APA comment period:

(c) With respect to the collection of information and the control of paperwork, each agency shall—

(A) ... provide 60-day notice in the Federal Register, and otherwise consult with members of the public and affected agencies concerning each proposed collection of information, to solicit comment to—

(i) evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;

¹⁰ <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf> Those that prefer a smaller typeface can find a version at the Federal Register web site <https://www.gpo.gov/fdsys/pkg/FR-2003-10-09/pdf/03-25606.pdf> A 16-page “condensed books” primer is at OMB’s web site, https://www.reginfo.gov/public/jsp/Utilities/circular-a-4_regulatory-impact-analysis-a-primer.pdf

Note that since the total national budget for patent applications and prosecution is about \$5 billion per year, this requirement for an economic analysis is triggered by any regulation that covers 2% of all patent prosecution. It’s striking that the PTO has never undertaken a Regulatory Impact Analysis for any regulation other than its fee-setting rules.

¹¹ Other suggestion letters from well-informed commentators abound. Ron Katznelson, *Patent Reforms Must Focus on the U.S. Patent Office*, Medical Innovations & Business Journal at 77 (Summer 2010), https://www.uspto.gov/sites/default/files/documents/2015quality_f_katznelson2_19may2015.pdf

¹² Comment letter under Paperwork Reduction Act (29 May 2012), at https://www.uspto.gov/sites/default/files/news/fedreg/comments/0651-0031_IEEE_Comment.pdf

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(ii) evaluate the accuracy of the agency's estimate of the burden of the proposed collection of information;

(iii) enhance the quality, utility, and clarity of the information to be collected; and

(iv) minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology; and

(B) for any proposed collection of information contained in a proposed rule (to be reviewed by the Director under section 3507(d)), provide notice and comment through the notice of proposed rulemaking for the proposed rule and such notice shall have the same purposes specified under subparagraph (A)(i) through (iv);

(3) certify (and provide a record supporting such certification, including public comments received by the agency) that each collection of information submitted to the Director for review under section 3507—

(A) is necessary for the proper performance of the functions of the agency, including that the information has practical utility;

(B) is not unnecessarily duplicative of information otherwise reasonably accessible to the agency;

(C) reduces to the extent practicable and appropriate the burden on persons who shall provide information to or for the agency, including with respect to small entities, as defined under section 601(6) of title 5, the use of such techniques as—

(i) establishing differing compliance or reporting requirements or timetables that take into account the resources available to those who are to respond;

(ii) the clarification, consolidation, or simplification of compliance and reporting requirements; or

(iii) an exemption from coverage of the collection of information, or any part thereof;

(D) is written using plain, coherent, and unambiguous terminology and is understandable to those who are to respond;

(E) is to be implemented in ways consistent and compatible, to the maximum extent practicable, with the existing reporting and recordkeeping practices of those who are to respond. ...

Several components of this rulemaking implicate the Paperwork Reduction Act (e.g., the DOCX proposal and the annual practitioner fee). The NPRM asserts that the PTO has obtained Paperwork clearance. This assertion is plainly false—the PTO has never even *applied* for clearance. See §§ II.A.5 and II.B below.

B. The PTO has not acknowledged, let alone addressed, the legal constraints

Despite multiple challenges,¹³ REF _Ref523926138 \w \h * MERGEFORMAT there is apparently no document in which the PTO discusses:

¹³ E.g., Katznelson, *The U.S. Patent Office's Proposed Fees*, note 4, *supra*; letter of David Boundy to PPAC, Sept. 12, 2018, https://www.uspto.gov/sites/default/files/documents/David_Boundy.pdf

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- The AIA legislative history, particularly in the removal of the earlier text, “notwithstanding the fee amounts established or charged,” or the discussion in the House report (see page). It is deeply puzzling to us that the PTO has never issued any legal analysis of legislative history.
- The effect of the word “only” in the phrase “*only* to recover the aggregate estimated costs.” Why would that mean “only” in amount rather than “only” in purpose? If Congress had meant “only” amount, that’s the words they would have used. (The legislative history makes clear that Congress intended “only” to apply to purpose as well as amount, see page .) It is also deeply puzzling to us that the PTO has never issued any legal analysis of *that* part of the legislative history.
- The Constitutional taxing power.
- The relevant Supreme Court or D.C. Circuit case law, even though the holdings (especially *Seafarers*) are 180° opposite the position the PTO takes in this NPRM.

I. Specific examples of unlawful or unwise fees

A. The proposal to charge a premium fee for PDF, and discount DOCX

As we explain below, the factual assumptions in the NPRM are entirely incorrect. There are a number of problems with DOCX that are apparent to us, and that were explained in the letters to PPAC. It is troubling that the NPRM fails to respond to the issues raised in the earlier comment letters, and instead offers a number of unsupported and counterfactual rationales.

There is a much better way to solve the problems the PTO identifies in the NPRM. Applicants upload most of their submissions as text-based PDFs. ***Then the PTO’s computer systems degrade them*** to flatten them to unstructured bitmaps. The problem is ***caused by the PTO***.

We recommend an alternative—follow the lead of WIPO’s ePCT and the federal courts’ CM/ECF system. Both ePCT and CM/ECF accept text-based PDFs. Unlike the PTO’s system, both ePCT and CM/ECF remove metadata, but otherwise leave documents intact, in the form that they are submitted. Neither ePCT nor CM/ECF flattens text-based PDFs to bitmaps.

1. Any standard for an electronic filing system must be portable and consistent across all implementations

The most basic requirement for any form of legal archiving is that it be portable and consistent. Page cites must be consistent—even small changes that move a word or line from one page to the next are simply not acceptable. Special characters, equations, and chemical formulae must render *exactly*. If a system does not *absolutely* guarantee that “What you see is what you get,” it is not acceptable.

DOCX does not satisfy that basic criterion. The NPRM proceeds from a false understanding of the word “standard.” There are two fundamentally-different kinds of standards: most standards are “minimum conforming implementation” standards.¹⁴ REF _Ref523926138 \w \h *

¹⁴ Most programming language standards are “minimum conforming implementation” standards. For example, the FORTRAN standard permits each implementer to include extension features, and no computer manufacturer’s extensions are compatible with any other’s. Similarly, the FORTRAN standard leaves some rules for arithmetic unspecified—basic arithmetic expressions may give different results on

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MERGEFORMAT Only a few are “interoperability” standards.¹⁵ REF _Ref523926138 \w \h * MERGEFORMAT DOCX is not itself a “standard,” and ECMA-376 and ISO/IEC 29500 are only “minimum conforming implementation” standards. DOCX implements a standard—just like car parts implement the metric system standard. Even though the measurements in today’s cars are all metric, that does not mean that any two alternators from different manufacturers are interchangeable. ECMA-376 and ISO/IEC 29500 are relatively “loose” standards—they leave a lot of room for implementations to differ (after all, Microsoft, the sponsor of the standard, did not want the choices it made in 2007 to be permanent lock-ins). DOCX files cannot even be transferred reliably between Microsoft Word for Windows and Microsoft Word for Mac. Users that use LibreOffice, or WordPerfect cannot reliably transfer documents to or from Microsoft Word. The problems are especially pronounced for equations and formulas. Even basic text can have the problem—standard fonts like Times Roman and Helvetica are available from different vendors, each with slight differences that will alter pagination in some cases. Even in an environment where all software is provided by Microsoft, the result is not reliable in this respect—using different versions of Word *on the same computer*, this letter changed in length by half a page (See Exhibit B).

On the other hand, PDF maintains all this consistency. That is what Adobe designed it to do, and why they named it “portable.”¹⁶ REF _Ref523926138 \w \h * MERGEFORMAT Portability and consistency is the reason that the WIPO’s ePCT and courts’ CM/ECF use PDF—the pagination and rendering are always consistent.

Another fundamental requirement in the design of a system like PTO’s system for e-filing patent applications is that the system should not force applicants or attorneys to purchase any particular proprietary software as a precondition of use of the system. For PDF, there are a number of free and freely-available tools that create and display PDF files. Not so for DOCX—to be consistent with whatever the PTO has in mind, applicants will be locked into purchasing a specific tool.

It appears that the PTO is unaware of the technology of word processors and documents. The rendering from DOCX to a visible form (either on screen, paper, or PDF) is done by the word processor. That rendering may vary based on various software components installed on a given computer. The same DOCX file can be rendered differently depending on the word processor, fonts installed, which font vendor supplied the font, whether the word processor chooses a vector form or bitmap form for the font, and add-ins for the word processor (especially for equations, pictures and drawings, and chemical formulae). Because a single word processor’s rendering engine is used to display on screen, print on paper, and print-as-PDF, the applicant has a trustworthy what-you-see-is-what-you-get. But if that same DOCX is transmitted

different computers, or even different results on the same computer depending on which software it’s used with.

¹⁵ Examples include the WiFi and IEEE cell phone standards: every implementation is interoperable with every other.

¹⁶ “Portable Document Format (PDF) is a file format used to present and exchange documents reliably, independent of software, hardware, or operating system.” Adobe, *What is PDF?*, <https://acrobat.adobe.com/us/en/acrobat/about-adobe-pdf.html>

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to the PTO, for the PTO to render using unidentified software and unidentified environment, the results will be different.

2. The factual representations in the NPRM relating to two standards and portability of DOCX are incorrect

The PTO does not tell us what rendering engine will be used within the PTO. Will it be MS Word or some other rendering engine? The “viewer” software in Firefox, Internet Explorer, or Chrome, or the viewer in Google gmail, Word 2003, 2013, or 2016? For Mac or Windows? All behave differently. With DOCX, no amount of care by a practitioner can possibly ensure how the document will be interpreted by the PTO’s rendering or conversion software. It is unreasonable to expect the filer to undertake to proofread, carefully, word-by-word, any specimen of the conversion result the PTO may provide just before the filing is finally submitted. Indeed, the very requirement to proofread the rendering (noted below in red text) is an admission by the PTO that it recognizes that DOCX is a shaky foundation for a legal document filing system (there’s no such warning in today’s system). For lengthy, complex specifications, the 60-minute timeout in EFS would preclude effective review. In the case of a timeout, the subsequent re-submission would still require the filer to review the entire conversion result from the beginning.

Standards ECMA-376 and ISO/IEC 29500 themselves disclaim the kind of interoperability that the PTO assumes. Some example sentences:

- “a software application should be accompanied by documentation that describes what subset of ECMA-376 it supports” ECMA-376 expressly states that there is no common set of features that are required to be implemented; all the standard guarantees is that *if* certain features are implemented, they will behave in a certain manner. A standard useful for an electronic filing system cannot rely on features that are optional in some implementations and unimplemented in others.
- “The application need not implement operations on all XML elements defined in ECMA-376.” Some implementations of DOCX are permitted to have features that will cause errors in others.
- “A batch tool that reads a word-processing document and reverses the order of text characters in every paragraph with ‘Title’ style before saving it can be conforming even though ECMA-376 does not recommend this behavior. [A conforming word processor may] transform the title ‘Office Open XML’ into ‘LMX nepO eciffO’. Its documentation should declare its effect on such paragraphs.” The ECMA standard *expressly allows* for entirely different renderings, so long as it’s documented.
- “These application descriptions should not be taken as limiting the ability of an application provider to create innovative applications. They are intended as a mechanism for labelling applications rather than for restricting their capabilities.” A standard useful for an electronic filing system can’t rely on features that are optional in some implementations and unimplemented in others.
- “[*Note: A possible application description would be a ‘standard’ application description for a wordprocessing application. This could be created by taking the intersection of the features available in common wordprocessing applications such as Word 2000, OpenOffice 2, WordPerfect, and iWork Pages. ... end note*]” ECMA-376 expressly states that there is no common set of features that are required to be implemented; all

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ECMA-376 guarantees is that *if* an implementer wants to implement a given feature, there is a format in which to implement it. There are very few behavioral guarantees.

- ECMA-376 leaves a number of features “implementation defined,” including whether and how to save any element that is under the control of a plug-in, how dates are rendered, how embedded pictures are rendered, whether numerical values are rendered with a “.” or a “,” as a decimal point, how fonts are chosen in rendering, line number spacing, and other characteristics. Documents copied from one DOCX program to another have no guarantee of being rendered consistently.
- A Microsoft blog¹⁷ REF _Ref523926138 \w \h * MERGEFORMAT writes “One of the great things about ISO/IEC 29500 is its extensibility mechanisms - implementers can extend the file format while remaining 100% compliant with the standard.” That statement is the admission—there is no uniform interoperability standard. ISO/IEC 29500 is a baseline, minimum functionality standard, not an interoperability standard that guarantees bilateral consistency between any two implementations. That may be a good feature for software developers, but it’s catastrophic for the use that the PTO contemplates. That bilateral interoperability is the whole point of the PDF standard.

As technically-trained lawyers, we don’t understand how any person could read ECMA-376 and not have immediately noticed the glaring deficiencies as a “standard” for legal documents.

One of the signatories of this letter was among the very first of the beta-testers of PTO’s system for DOCX filings. As implemented by the PTO, the practitioner would upload a DOCX file, and PTO would render the DOCX file in a human-readable PDF image format. As part of the e-filing process, the practitioner was expected to proofread the rendered image as provided by the PTO’s e-filing system. The notion was that the practitioner would be obliged to catch any instances of PTO’s system rendering the DOCX file differently from the way the practitioner’s word processor had rendered that same DOCX file. If, for example, some math equation or chemical formula had gotten corrupted in PTO’s system, the practitioner would be expected to catch this *prior to* clicking “submit.”

There is no single unambiguous thing called “DOCX” format. The history may be seen in the Wikipedia article on “Office Open XML,” at https://en.wikipedia.org/wiki/Office_Open_XML. One key sentence is:

The Office Open XML specification exists in a number of versions.

Five, to be precise. <https://www.ecma-international.org/publications/standards/Ecma-376.htm> *To the extent there is a standard at all, it is too lax to be useful for the purpose the PTO proposes.* DOCX exists in many variants, and Microsoft has a history of making poorly documented changes over time to the ways that Microsoft Word implements DOCX formatting of documents.

The PTO’s web site, <https://www.uspto.gov/patent/docx> inaccurately characterizes DOCX as if one could be sure that any word processor will implement DOCX in the same way as any other word processor. For example, PTO says:

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<https://blogs.msdn.microsoft.com/chrisrae/2010/10/06/where-is-the-documentation-for-offices-docx-lspx-ptx-formats-part-2-office-2010/>

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There are several word processors that can create and save in DOCX format, including Google Docs, Microsoft Word 2007 or higher, Office Online, LibreOffice, and Pages for Mac.

That statement is misleadingly incomplete, conveying a clearly erroneous impression, disingenuous at best, and borders upon falsity given that there is no single unambiguous DOCX format. A more accurate statement would be:

There are several word processors that can create and save documents in variants of DOCX formats, including Google Docs, Microsoft Word 2007 or higher, Office Online, LibreOffice, and Pages for Mac.

PTO also says (<https://www.uspto.gov/patent/docx>):

DOCX is stable and governed by two international standards (ECMA-376 and ISO/IEC 29500).

This statement is simply false. There is no single DOCX standard to which Microsoft Word and the other word processors are all compliant.

To give a simple example, consider this math equation in a patent application recently filed as a PDF-based PCT application using Libre Office:

As an experiment, this Libre Office DOCX file was uploaded as a DOCX to EFS-Web as if filing a domestic US patent application. The way the PTO has designed EFS-Web, what happens next is that the practitioner sees this message in red letters:

The PDF(s) have been generated from the docx file(s). Please review the PDF(s) for accuracy. By clicking the continue button, you agree to accept any changes made by the conversion and that it will become the final submission.

It is easy to see that this filing procedure, as contemplated by the PTO, imposes an enormous professional liability risk on the practitioner. The practitioner is obligated to proofread the entire patent application, from top to bottom, for any corruption introduced by the PTO's rendering system.

Here is how the PTO rendered this math equation:

Note that the PTO's rendering system inserted a spurious digit "1" into the math equation. Had the practitioner overlooked this corruption of the document by the PTO, the practitioner might then have clicked "continue", at which point it would have been PTO's position that the practitioner had agreed to accept PTO's change of "0.2" to "10.2".

In other cases, the PTO's system changes fonts.

Let's assume that the practitioner catches a situation where the PTO's rendering engine has changed the result relative to what the practitioner saw on his/her word processor. Let's say some characters are showing up as boxes, question marks, or just the wrong character, or changed fonts. The practitioner has been diligent and noted that the PDF does not match the DOCX. Now what? Does that guarantee that the practitioner knows how to fix the problem? No. Most of these problems are deep in the guts of two different software systems. With deadlines looming, how is a practitioner going to change either the practitioner's word processor or the PTO's rendering software so that the two agree? Which one should change? How will the practitioner get that software change

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implemented in the next few hours so that the application can get its filing date? Knowing that there is a problem, and being able to fix the problem in a timely manner, may be two completely different things.

Signatories of this letter that have used the PTO's DOCX system opt out (and use PDF) if there is any math equation or chemical formula, or anything other than very simple alphanumerical characters.

Exhibit B to this letter is a copy of this letter as rendered after copying from Word 2013 to several of the applications that the PTO claims (<https://www.uspto.gov/patent/docx>) to be compatible. The formatting differences will be instantly apparent, and could well be fatal to any patent application: tables are rendered unreadable, page cross-references and many formulas are simply lost (converted to spaces), headings and similar structure formatting were lost (which will, at the least, result in unreliable pagination). It certainly appears that no one at the PTO did any experimentation to confirm the factual representations at the PTO's "docx" page or the NPRM.

But this proposed DOCX rule would put every practitioner in the untenable position of having to pay a \$400 penalty tax for every case filed electronically using EFSWeb.

3. The rationales stated in the NPRM are faulty

The following table responds to the PTO's factual assertions and rationales. The PTO's claims for the "Non-DOCX Filing Surcharge Fee" are in the left column. The actual facts and observations of attorneys and agents with experience are in the right column:¹⁸ REF _Ref523926138 \w \h * MERGEFORMAT

Rationale from 84 Fed. Reg. 37413	Our observations
Based on a USPTO survey, over 80 percent of applicants author their patent applications in DOCX in the normal course of business.	Even if this is true (the PTO neglects to make its data or methodology available, in violation of the PTO's obligations under its own Information Quality Guidelines), it ignores two key facts: · 20% don't. The costs on those parties to <i>reliably</i> file based on DOCX from their word processors—and reviewing the PTO's rendering of the document as received—will be immense. The PTO fails to consider that cost. · That 80% includes users of many different word processors, and document rendering across those word processors is <i>not</i> portable
Filing in structured text allows applicants to submit their specifications, claims, and abstracts in text-based format, and eliminates the need to convert structured text into a PDF for filing.	Applicants already submit most documents in a "text-based format," PDF. · The PTO did not measure the cost of <i>not</i> converting word processor documents to PDF, or compare that cost. · The PTO did not measure the cost of splitting one DOCX file into three for filing. · The PTO did not consider costs of DOCX features that might be in a practitioner's

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	word processor but not accepted by the PTO's system..
Applicants can access examiner Office actions in text-based format which makes it easy to copy and paste when drafting responses.	<p>The format for Office Actions has no relevance whatsoever to the format of applicant submissions.</p> <p>In a system that accepts PDFs, applicants are responsible for generating a correct PDF. Under current practice, that generation is readily predictable and controllable. If the PTO does it, with an undisclosed tool, the process is unpredictable. It certainly appears that the PTO intends to shift responsibility for the PTO's unpredictable data transcription errors onto applicants.</p> <p>In downloaded Office actions, much information can be gained by seeing what information is form or template data. The Office has not considered the impact of similar accessibility of application edit history data even if "metadata" is scrubbed.</p>
The availability of structured text also improves accessibility for sight-impaired customers, who use screen reading technology.	These advantages are available to exactly the same extent for the text-based PDFs that applicants submit today, if only the PTO's systems did not degrade them to flat bitmaps.
It enables development of software to provide automated initial reviews of applicant submissions to help reduce effort required by the Office.	
The automated reviews can tell applicants up-front if potential problems exist and allow them to make changes prior to or at the time of submission.	
This also improves validation based on content, such as claims validation for missing claim numbering or abstract validation for word count and paragraph count.	
DOCX filing also improves document identification by automatic detection, allows for greater reuse of content, and provides improved searching for patent applications and submissions.	

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Increased DOCX filing will also lead to higher data quality, by reducing system conversion errors.	This is false. DOCX will <i>increase</i> data conversion errors, because DOCX does not, and was not intended to, provide reliable or portable “what you see is what you get” uniformity. The supposed benefits are available to a <i>greater degree</i> with the text-based PDFs that applicants submit today, if only the PTO would stop degrading them.
It provides a flexible format with no template constraints.	<p>To the degree this sentence has any meaning (which is not apparent), this is available to exactly the same extent for the text-based PDFs that applicants submit today, if only the PTO would stop degrading them.</p> <p>To the contrary, the three-document requirement is a template constraint. But this also highlights the potential loss to applicants of advanced word processing features.</p>
[DOCX] also improves data quality by supporting original formats for chemical formulas, mathematical equations, and tables.	<p>This is false. DOCX will <i>increase</i> data conversion errors.</p> <p>Various word processors use several different third-party plug-in packages for chemical formulas and mathematical equations, and they differ. However, as rendered in a PDF, they are all consistent.</p> <p>The supposed benefits are available to a <i>greater degree</i> with the text-based PDFs that applicants submit today.</p>
The originally submitted structured text document is available within Private PAIR, allowing easy retrieval of original DOCX files after transfer of cases between users.	It is very rare that when a case moves from one practitioner to another, that the old practitioner won’t do the courtesy of transferring original working documents. Of the “costs” and “benefits” imagined in the NPRM, this is the only one that a value in the PTO’s direction, but it’s vanishingly small.

This is a failure of the obligation to disclose rationale. If there is any sound cause-and-effect between the proposal and the asserted benefits, they are not explained in the NPRM. That is arbitrary and capricious under the Administrative Procedure Act.

1. Alternative suggestions

Our preferred solution is to change nothing on the applicant's side—applicants should continue to file text-based PDFs. Instead, the PTO should change—discontinue degrading those text-based PDFs into flattened bitmap PDFs.

Another option to consider is the example of WIPO: WIPO permits the applicant, at the time of filing an international patent application, to provide not only the character-based version of the patent application (XML, in the case of PCT), but also the “pre-conversion format” of the document. This is explained in the PCT Administrative Instructions § 706, at <https://www.wipo.int/pct/en/texts/ai/s706.html>. The idea is that if later it turns out that some flaw arose in the generation of the XML file, or some flaw in the way the XML got rendered into human-readable form, the applicant would be able to point to what the application looked like in its “pre-conversion format”.

As a precondition to imposing a \$400 penalty for non-DOCX filings, the PTO should provide the practitioner the option to provide a PDF version of the patent application being filed, along with the DOCX file. This PDF version would serve as the controlling version in the event that (for example) the PTO rendered the DOCX incorrectly.

It is clear that the PTO never actually tested its DOCX e-filing system with any word processor other than Microsoft Word. And the software in the PTO's e-filing system fails to handle correctly even a very simple DOCX file created using Libre Office. It is recalled (see above) that Libre Office is one of the word processors that the PTO points to as (supposedly) being supported by the PTO in its patent e-filing system.

DOCX files are more prone to viruses and malicious code.

2. Legal deficiencies in the DOCX proposal

The PTO's materials state that the fee is intended to “encourage” applicants to do something. That violates the limits of § 10(b)(2), and it is an unconstitutional “tax.” See §§ [LB.1](#) and [LC](#).

The PTO's current DOCX system requires that a single document be split into three, the specification, claims, and abstract. But that breaks page numbering and other automatic formatting features provided by Word. The PTO's Paperwork Reduction Act analysis fails to consider this and similar costs.

How will shifting from PDF to DOCX affect applicants' recordkeeping requirements and costs? There is a lot of benefit to PDF's—with a PDF, it is always clear *exactly* which version was submitted to the PTO, even if there were many versions of the DOCX. A PDF *always* looks exactly the same, no matter what computer it is opened on, no matter what font cartridge happens to be loaded in a given printer. The same cannot be said for DOCX files. We have had situations where a Word document printed on one printer has one more line per page than when printed on another printer—trying to page-cite to a document that is in the PTO's IFW will be unreliable. The PTO will have to estimate the recordkeeping costs of this randomness, costs of reviewing every submission before hitting “submit,” and the costs of developing and changing recordkeeping practices, under the Paperwork Reduction Act. And all transition costs.

Drawing submissions are generally in PDF file format and generally cannot easily be made in the DOCX format, so the Office will receive PDF submissions anyway. This is particularly true for provisional applications, where drawings embedded in the text are especially common. The PTO will have to confer with the public to estimate those costs.

The NPRM states that this rule is a “transfer payment from one group to another.” This is false. The operative definition of “transfer payment” is in OMB Circular A-4;¹⁹ REF _Ref523926138 \w \h * MERGEFORMAT the original definition involved cash payments to private sector actors (such as social security, poverty and food assistance programs, and other social benefit programs), and the definition has grown to cover other direct cash transfers among private sector entities (for example, prices set at supracompetitive levels). In contrast, the NPRM is calls for

¹⁹ OMB Circular A-4, *Regulatory Analysis*, at 38 (Sept. 17, 2003), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf>

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funds to be paid from private sector persons to government for government consumption. The NPRM discusses no monetary payout to any private sector party, the essential characteristic of a “transfer payment.”

The PTO cannot legally go forward with the annual practitioner fee from this NPRM. If the PTO wants to impose such a fee, it must re-propose with a new NPRM, which contains a complete and truthful Regulatory Flexibility Analysis, Paperwork Reduction Act certification, and E.O. 12866 Regulatory Impact Analysis, and E.O. 13771 statement, each discussing the factors we raise below, and showing positive benefit-cost.

B. The “annual practitioner fee” and CLE discount

The proposal proposes to create new fees for “Annual Active Patent Practitioner Fee ... without certifying continuing legal education (CLE) completion” and “...with certifying continuing legal education (CLE) completion.”

At PPAC stage, the PTO was completely silent on rationale for creating the annual fee (there were a few sentences of rationale for the CLE discount, but not for the fee). The rationale offered in the NPRM is (84 Fed. Reg. at 37415):

Currently, the costs of OED’s disciplinary and other functions are paid by patent applicants and owners. The Office proposes these fees so that practitioners, who directly benefit from registration, should bear the costs associated with maintaining the integrity of their profession, including the costs of OED’s register maintenance and disciplinary functions. This parallels the way many state bars operate where the services of maintaining the bar are often paid by the attorneys who are members of that bar. Accordingly, these fee collections are proposed to shift the costs of the services OED provides practitioners in administering the disciplinary system and register maintenance from patent applicants and owners to the practitioners.

... The fees would also serve to fund the Patent Pro Bono Program and the Law School Clinic Certification Program, which increase public access to competent legal representation in IP matters, help enhance the IP legal profession for its members, and serve to make the patent examination process more efficient by decreasing the number of pro se applicants. In addition, the fee would help to cover the costs of increased outreach efforts, including speaking engagements and providing additional training opportunities to help patent practitioners receive the CLE discount...

In addition, PPAC stated that the annual fee would “make certain that the roll of registered practitioners is up-to date and to defray the patent related costs of operating the Office of Enrollment and Discipline (OED).” These rationales confess that the “annual practitioner fee” is beyond the PTO’s authority under § 10, and violates the IOAA:

- For maintaining a current roll of active practitioners, the Paperwork Reduction Act requires that the PTO seek the lowest-burden alternative. What’s the matter with an annual paper survey, an email ping, or a reminder to any practitioner that hasn’t logged into his/her myuspto account for a year?
- For “defraying operating cost,” where’s the statutory authorization?
- The IOAA limits agency user fees to cover specific services to a specific “identifiable recipient,” at the cost of providing that service or the value to the recipient, but may not recover agency general operating costs (see § I.D and note 7 of this letter). The NPRM never mentions the IOAA, let alone any exception.

The NPRM is entirely silent on several legally-required issues relating to the annual practitioner fee proposal:

- The materials identify no statutory authorization. § 41(d)(2)(A) permits the Director to “establish fees for all other processing, services, or materials.” One of the comment

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letters to the PPAC directly challenged the PTO to identify a specific “processing, service or material” that is provided;²⁰ REF_Ref523926138 \w \h * MERGEFORMAT by silence, the NPRM concedes there is none. § 2(a)(2)(D) authorizes the Director to “govern recognition and conduct of agents [and] attorneys,” but no fee is authorized as part of § 2(a)(2)(D).

- AIA § 10(a)(1) only authorizes the Director to “adjust by rule any fee *established, authorized, or charged under title 35*.” § 10 does not authorize creating new fees, only adjusting existing fees (see § [I.B.2](#)). Because this is not a fee within the AIA § 10, the Independent Offices Appropriations Act applies. The IOAA and its implementing case law limit the PTO’s ability to set levels of new user fees—the PTO may charge fees to cover actual cost, but not to create cross-subsidies, or to influence behavior.²¹ Thus, at highest, an annual practitioner fee can be at cost-recovery *for the services provided to the specific “identified recipient.”*
- The NPRM identifies no legally-permissible reason for it. E.O. 12866 § 3(f)(1) requires that the PTO “identify the problem that it intends to address (including, where applicable, the failures of private markets or public institutions that warrant new agency action) as well as assess the significance of that problem.” The Administrative Procedure Act also requires a statement of rationale at proposal stage. The only explanations of either need or benefit for an annual practitioner fee, at the level required by E.O. 12866, are both illegal.
- E.O. 12866 § 3(f)(1) requires that the PTO “assess both the costs and the benefits of the intended regulation and, recognizing that some costs and benefits are difficult to quantify, propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.” There is no estimate of either costs or benefits, and thus no balancing against the *status quo*.
- The Paperwork Reduction Act requires the PTO to account for costs for reporting, recordkeeping, and other compliance costs. The NPRM is silent.
- The PTO must analyze costs for all patent agents, who are not admitted to the bar of any state, and thus have no existing CLE requirement that would overlap with any Patent Office Requirement.
- The PTO must analyze costs for all patent attorneys who are admitted to the bars of any state that does not impose an existing CLE requirement that would overlap with any Patent Office Requirement.
- A great fraction of all practitioners work for small entities. Thus, the Regulatory Flexibility Analysis (84 Fed. Reg. 37425-30) must analyze the effect of the annual practitioner fee on these small entities. It does not. It would be unlawful for the PTO to proceed further with this proposal without an Initial Regulatory Flexibility Analysis.
- The PTO must be able to *certify* that the requirement is “*necessary* for the proper performance of the functions of the agency.” 44 U.S.C. § 3506(c)(3)(A). The PTO has

²⁰ letter of David Boundy to PPAC, Sept. 12, 2018, https://www.uspto.gov/sites/default/files/documents/David_Boundy.pdf at page ____.

²¹ See §§ I.B.1 (legislative history), I.C (constitutional taxing power), and I.D (IOAA) above, and Katznelson, *Scope of Fee-Setting Authority*, note 4, *supra*.

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run a practitioner registration program for the better part of a century without an annual practitioner fee or CLE requirement—why have they suddenly become “*necessary*?”

- The PTO must be able to *certify* that the requirement is implemented in ways “consistent and compatible, to the maximum extent practicable, with the existing reporting and recordkeeping practices of those who are to respond,” including for those attorneys in states that do not have existing CLE requirements, and for all agents.
- “The USPTO proposes to add paragraph (d) to § 11.8 to establish a new fee to be paid annually by practitioners.” 84 Fed. Reg. 37422 at col. 1. The E.O. 13771 certification, at 84 Fed. Reg. 37430, states “this proposed rule is expected to involve a transfer payment.” These two sentences cannot both be true. The latter is a falsehood: the annual practitioner fee does not fit any of the applicable definitions of “transfer payment” (see § IV.C).
- The PTO proposes that “[T]hrough the encouragement of practitioner CLE by offering a \$100 annual fee discount as well as recognition on OED’s public practitioner search page, the patent system should benefit greatly.” NPRM, 84 Fed. Reg. at 37415. If it’s about “encouraging,” it’s an unconstitutional tax.
- The PTO proposes that “Encouraging CLE, by offering a discount, will improve the quality of the bar and therefore of the resulting patents.” *Detailed Appendix* slide 65. If it is about “encouraging,” it is an unconstitutional tax.
- This fee would raise about \$5 million per year for the PTO. The Paperwork Reduction Act requires that the PTO estimate *all* costs—searching for appropriate CLE courses, travel, attendance, fees for the courses, tracking the paperwork, recordkeeping, submitting it to the PTO, docketing the annual act of paying the fee, firm administration to ensure that all practitioners are up to date, and the like. Multiplying out some estimated numbers, it seems that added costs would lie in the range of \$40-\$100 million per year. Before proceeding, the PTO will have to show public benefit in the same range, and that the annual fee is the least costly way to achieve the benefit. (The burden of proof is on the agency.) OED gets its current funding out of the general patent fund—no paperwork muss, no fuss. What’s wrong with that?
- The NPRM states “The collection of information involved in this proposed rule has been reviewed and previously approved by OMB under control numbers 0651–0012, 0651–0016, 0651–0020, 0651–0021, 0651–0031, 0651–0032, 0651–0033, 0651–0059, 0651–0063, 0651–0064, 0651–0069, and 0651–0075.” This is false. If there were any such approval, it would be under control number 0651-0012 “Admission to Practice and Roster of Registered Patent Attorneys and Agents” and it is not in the current inventory.²²

REF_Ref523926138 \w \h * MERGEFORMAT The PTO has made no filing seeking any substantive change to 0651-0012 since 2014.²³ REF_Ref523926138 \w \h * MERGEFORMAT

Circular A-4 then requires that the agency “Quantify and monetize the benefits and Costs” and “evaluate non-quantified and non-monetized benefits and costs.” The PTO has not done so, except to state “The Office ... found that the proposed rule has significant qualitative benefits with no identified costs” (84 Fed. Reg. 37401). The NPRM does not specify what those “qualitative benefits” are for the practitioner fee. The absence of “identified costs” tells more about the quality of the Office’s analysis than about costs.

²² https://www.reginfo.gov/public/do/PRAICList?ref_nbr=201712-0651-022

²³ <https://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0012>

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The laws that govern regulatory analysis required the PTO to perform a benefit-cost analysis, and make the analysis public so that the public could meaningfully participate in the PPAC hearing. Maybe an annual practitioner fee is a good idea. Maybe not. Maybe it would be counterproductive to the PTO's budget—maybe the costs of administration would nearly eat up the revenue. Regulatory analysis is mandatory precisely to ensure that agencies do not leap before they look, and benefits the agency when the agency can show the public that it is acting for public benefit, not for agency benefit.

Regulatory analysis is not just something that agencies get around to when they feel like it; it is something that law-abiding agencies do for every regulation that “that is likely to result in a rule that may ... have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy,”²⁴ REF _Ref523926138 \w \h * MERGEFORMAT under the Executive Order 12866 and Circular A-4. It is something agencies do for any regulation that requires the public to submit paperwork to the agency, under the Paperwork Reduction Act.²⁵ REF _Ref523926138 \w \h * MERGEFORMAT Because a high fraction of patent practitioners are employed by small entities, analysis under the Regulatory Flexibility Act is also required.

A. The proposal to increase fees for second RCEs

1. The selective disclosure of factual information is problematic

Fees for RCEs are authorized to be set by the Director. They are not specifically scheduled in § 41, but they are “authorized.” Therefore, § 10 allows the PTO to set those fees. However, § 10 only supersedes one requirement of the IOAA, and leaves all other fee-setting laws in place (see § I.D of this letter). The PTO may not set fees to “encourage” or “discourage,” (see §§ [LB.1](#) and [LC](#)), and must honor the provisions of the IOAA that are not waived by § 10(a)(2), and must honor the non-waivable constitutional limits against executive branch “taxation.”

The cost materials provided to the PPAC showed unit costs for “RCE—1st request” and “RCE—2nd and subsequent.”²⁶ REF _Ref523926138 \w \h * MERGEFORMAT

	proposed fee	unit cost FY 2017
Request for Continued Examination (RCE) - 1st Request (see 37 CFR 1.114)	\$1,360	\$2,235
Request for Continued Examination (RCE) - 2nd and Subsequent Request (see 37 CFR 1.114)	\$2,000	\$1,654

If “RCE 2nd request” is *lower* in unit cost, then how can the PTO justify setting the “2nd and subsequent request” fee *higher*? The PTO’s 2013 and 2016 rule notices *have* offered justification for this fee—an illegal justification. The PTO’s very own words make clear that the “2nd and subsequent” fee is a tax, and therefore unlawful.

At NPRM stage, how does the PTO handle this anomaly? By excising the “inconvenient” information. The “USPTO Section 10 Fee Setting – Activity-Based Information

²⁴ Executive Order 12866 § 2(f)(1).

²⁵ 44 U.S.C. § 3506.

²⁶ Table of Patent Fees – Current, Proposed and Unit Cost, https://www.uspto.gov/sites/default/files/documents/Table_of_Patent_Fees_-_Current_Proposed_and_Unit_Cost.xlsx (Sept. 22, 2019)

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and Costing Methodology” document²⁷ REF_Ref523926138\w\h* MERGEFORMAT simply omits any discussion of “2nd and subsequent request”—note how each line only discusses “1st request.”

The omission, after including it in previous documents, certainly appears to be entirely intentional. Omission of information that is known to the PTO and that known to be contrary to a position stated by the PTO is deeply problematic.

2. The higher fee for “2nd and subsequent RCE” is unlawful

· The 2019 NPRM does not state any rationale for the “2nd and subsequent RCE fee” to be different than the 1st, let alone higher. Without an explanation, this is “arbitrary and capricious.”

· RCE fees are governed by the IOAA, except for the one requirement that is carved out by AIA § 10 (see § [I.D](#) of this letter). Thus, the PTO may charge its actual cost, plus

²⁷ https://www.uspto.gov/sites/default/files/documents/ABI_Methodology_July2019.docx

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a proportional share of general administrative costs, reduced by a proportional share of issue and maintenance fees. But no more than that. The excess charge for second RCEs is unlawful.

· The 2012 NPRM explained that the “2nd and subsequent RCE fee” was intended to “Multipart RCE fees demonstrate how the Office seeks to facilitate the effective administration of the patent system and offer patent prosecution options to applicants.” That admission makes the 2nd-and-subsequent RCE fee an unconstitutional “tax” (see § [LC](#) of this letter).

· This tends to hurt small entity applicants, and small entity law firms. Small entity applicants’ applications. The Initial Regulatory Flexibility Analysis offers no explanation justifying that differential effect on small entities.

· More-innovative inventions tend to take longer prosecution times than small incremental inventions—inventors are less willing to compromise to just “take a weak patent and run.” The higher charge for “2nd and subsequent RCEs” penalizes exactly the more-inventive inventions that the patent system is supposed to encourage. E.O. 12866 § 1(b)(5) requires that the PTO explain any regulation that impairs “incentives for innovation.” The NPRM fails to do so.

· E.O. 12866 § 1(b)(2) directs agencies to “examine whether existing regulations (or other law) have created, or contributed to, the problem that a new regulation is intended to correct.” In 2012, the PTO requested comment on RCE practice.²⁸ Several of the comment letters²⁹ noted that at least in part, extended RCE practice was driven by a breakdown of “compact prosecution”—Office Actions were less complete, less careful, less responsive to applicants’ arguments. We have not observed any effort by the PTO to address its “existing regulation” half of the problem—for example, the PTO has not recalibrated the count system to remove incentives for gaming by examiners, or provided sound supervision to ensure completeness of Office Actions. E.O. 12866 suggests that it’s inappropriate to shift costs to the public for a failure of the PTO to implement its own self-regulatory obligations.

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<https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-request-comments-request-continued-examination>

²⁹ IEEE-USA, https://www.uspto.gov/sites/default/files/patents/law/comments/ieee_20130204.pdf (“the PTO’s current compensation system provides examiners with considerable incentives to *delay*.”); ABA-IPS, https://www.uspto.gov/sites/default/files/patents/law/comments/aba-ipl_20130201.pdf (“reducing the number of RCE applications requires increasing education of ... examiners, with appropriate incentives”); Kenneth Fagin, https://www.uspto.gov/sites/default/files/patents/law/comments/fagin_20130311.pdf (“I believe the primary causes for the growing RCE backlog lie with the PTO”); Bruce Hayden https://www.uspto.gov/sites/default/files/patents/law/comments/hayden_20130308.pdf (“Better enforcement of MPEP requirements for proper examination and for marking OA as final”); Mark Levine, https://www.uspto.gov/sites/default/files/patents/law/comments/levine_20130212.pdf (“[T]he most significant factor contributing to the need to file an RCE ... is the poor and improper examination practices in first actions. ... Another possible factor contributing to the need to file an RCE is the tendency for examiner’s to improperly make second actions final. This is so because the current count system at the USPTO incentivizes such practices.”)

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A. The restructuring of appeal fees exceeds the PTO's authority under AIA § 10

The change from “notice of appeal” and “filing a brief in support of an appeal” of § 41(a)(6) was restructured into “notice of appeal” and “forwarding an appeal to the Board” as in 37 C.F.R. § 41.20(b)(1) and (4). That is unlawful, and needs to be backed out.

The proposed fees are entirely out of line with the statutory fees. This is especially concerning, given the high rate of reversal (when reversals at pre-Appeal stage, Appeal Brief stage, and final decision stage are added together, the reversal rate is well over 50%, and last time all the data were assembled, was in the mid-80% range. Appeal is a cost largely created by poor examination quality, not a cost created at the instance of applicants). In drafting § 41, Congress had the PTO's data in hand to understand the PTO's cost structure. Congress set the fees for appeal at a fraction of the actual cost. Congress could easily have had in mind that appeal fees should not penalize applicants for examiners' mistakes. Instead, Congress might well have believed that the PTO should have financial incentives and supervisory oversight to ensure that unfounded rejections are withdrawn before the PTO bears the cost of an appeal. The PTO's fee structure interferes with those (inferable) Congressional concerns.

	§ 41 fee	proposed fee	unit cost FY 2017
Notice of Appeal	540	800	17
Filing a Brief in Support of an Appeal	540	0	n/a
Forwarding an Appeal to the Board	unauthorized	2240	5147
Request for Oral Hearing	1080	1300	1566

And at any rate, for reasons discussed §§ [I.B.1](#) and [I.C](#), the PTO lacks statutory and constitutional authority to second guess Congress' policy balances encoded in the appeal fee line items.

B. Other specific examples of unlawful fees

A number of line items in the proposed fee schedule are problematic:

- Maintenance fees.** The “Detailed Appendix” slides (slide 64) propose that the PTO wants to “restructure issue and maintenance fees,” to rebalance the ratio between “back-end” maintenance fees vs. “front-end” processing fees. Congress already made the policy choice: initial filings should be cross-subsidized by maintenance fees, at approximately 50%.³⁰ REF _Ref523926138 \w \h * MERGEFORMAT Congress (by inference) felt it important to encourage filing, and allow successful patentees to cross-subsidize filing. Constitutionally, it is beyond the PTO's authority to second-guess Congress' policy balance and “tax” to effect the PTO's preference. Under the APA, this is rulemaking

³⁰ That is not just the statutory language; it's in the legislative history. Pub. L.96-517, 94 Stat 3015 (Dec. 12, 1980); See H. Rep. 96-1307(I),8-9 (1980) (patent applicants should bear the office's patent costs through the payment of fees split in equal amounts between application “processing” fees and post-grant ““maintenance”” fees).

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relying on “factors which Congress has not intended [the agency] to consider,” one of the categories of agency action that is arbitrary and capricious nearly *per se*.³¹ REF _Ref523926138 \w \h * MERGEFORMAT The PTO departed from Congress’ intent in 2013, and should move back.

- **Raising the late surcharge for maintenance fees** to “encourage” earlier payment. Congress determined that the public should have clear notice of abandonment on the 4th, 8th, and 12th anniversaries. The PTO disagrees, and thinks the public should know on the 3½, 7½, and 11½ anniversaries. The PTO identifies no statutory delegation of authority for it to hold such an opinion, let alone act on it. Nor does the PTO explain how any rational competitor could reasonably rely on a failure to pay a maintenance fee in the first half of the window to commence investment during the second half—no lawyer would advise a client to undertake the risk of commercial exploitation based on such flimsy information. If this is a good idea, then it is a good idea to secure through a proper law, by Congress.

I. The “operating reserve”

We agree in principle with the PTO’s operating reserve. But we see no statutory authorization.

The operating reserve is not fairly within the text of AIA § 10, which limits PTO fee collections to “only” aggregate costs. The House report reinforces this reading.³² REF _Ref523926138 \w \h * MERGEFORMAT Neither the 2012 Notice of Proposed Rulemaking nor the 2013 Final Rule notice discuss statutory authority for the operating reserve.³³ REF _Ref523926138 \w \h * MERGEFORMAT It is inconsistent with the IOAA, which bars agencies from collecting user fees to cover agency priorities, unless Congress grants express authority.

Further, the legislative history suggests that Congress intended that the PTO *not* have an operating reserve. In fall 2011, Sen. Coburn proposed an amendment that would have given the PTO an operating account outside the normal appropriations process, which (arguably) would have given the PTO the authority to raise funds that it could hold for its own future expenditures. That amendment was not adopted, because of constitutional concerns—an agency can only spend when the money is *appropriated*.

Sen. Coons’ “Big Data for IP Act” S.2601³⁴ REF _Ref523926138 \w \h * MERGEFORMAT would have added a statutory authorization for the operating reserve. But that did not become law.

A good idea is only a good idea if it’s legal. If the PTO has no statutory authority for the operating reserve, we urge the PTO to consider whether acting outside the law, just because it seems like a good idea, is in fact a good idea. The PTO only succeeds to the extent that the

³¹ *Motor Vehicle Mfrs. Ass’n v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

³² See excerpts from the House report at § I.B.1 at page .

³³ Patent and Trademark Office, *Setting and Adjusting Patent Fees, Final Rule*, 78 Fed. Reg. 4212 (Jan. 18, 2013)

³⁴ <https://www.congress.gov/bill/115th-congress/senate-bill/2601>

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public is confident in the PTO's commitment to the rule of law and its mission. Conversely, a lawless act by senior officials percolates down, and might contribute to a culture of disrespect for the rule of law within the rest of the agency. Respect for the rule of law builds good will with stakeholders outside the agency. Is the operating reserve worth compromising that?

I. Procedural violations

A. Independent Offices Appropriations Act and Circular A-25

The Federal Register Notice does not even mention the IOAA and circular A-25, which are the general framework statute and Presidential interpretation for agencies that charge user fees. How can an agency comply with a law that it so pointedly ignores?

A. Executive Order 12866

The NPRM states (84 Fed. Reg. at 37401, col. 1):

The Office did not identify any monetized costs and benefits of the proposed rule, but found that the proposed rule has significant qualitative benefits with no identified costs.

This statement strains credulity:

- The whole point of the rule is to raise fees, by hundreds of millions of dollars. “No identified costs?”
- The comment letters to PPAC identified substantial costs to the public for the DOCX problem, and additional costs are explained in this letter. “No identified costs?”
- The “annual active practitioner fee”—“no identified costs?”

But why has there never been an analysis of the alternative required by statute and the Constitution, raising all fees proportionally from the baseline set by Congress, with deviations only where the PTO has specific data to support a deviation? After all, that is the constitutionally required alternative—the current fee schedule, with its incentives here and disincentives there, is an unconstitutional “tax.” Considering only phony strawmen as “alternatives” is not compliant with the PTO's obligations under the letter of the law,³⁵ REF _Ref523926138 \w \h * MERGEFORMAT and cannot be reconciled with the “regulatory philosophy” or spirit of the law. Artificially narrowing the options is arbitrary and capricious *per se*.³⁶ REF _Ref523926138 \w \h * MERGEFORMAT Indeed, developing and vetting alternatives is one of the essential goals of the notice and comment process.³⁷ REF _Ref523926138 \w \h * MERGEFORMAT

C. Executive Order 13771

The NPRM states (84 Fed. Reg. at 37430 at col. 2):

³⁵ An “agency must consider reasonably obvious alternatives and, if it rejects those alternatives, it must give reasons for the rejection...” *Yale-New Haven Hosp. v. Leavitt*, 470 F.3d 71, 80 (2d Cir. 2006).

³⁶ *Pillai v. Civilian Aeronautics Board*, 485 F.2d 1018, 1027 (D.C. Cir. 1973).

³⁷ *Owner-Operator Independent Drivers Ass’n v. Fed Motor Co.*, 494 F.3d 188, 199–203 (D.C. Cir. 2007) (rule invalid when agency failed to disclose the data and assumptions on which it based its benefit-cost analyses); *Home Box Office Inc. v. Federal Communications Comm’n*, 567 F.2d 9, 36 (D.C. Cir. 1978) (“an agency proposing informal rule-making has an obligation to make its views known to the public in a concrete and focused form so as to make criticism or formulation of alternatives possible”).

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This proposed rule is not expected to be subject to the requirements of Executive Order 13771 (Jan. 30, 2017) because this proposed rule is expected to involve a transfer payment.

The claim to the “transfer payments” exemption is false, for at least three reasons:

- The definition of “transfer payment” is in OMB Circular A-4.³⁸ REF _Ref523926138 \w \h * MERGEFORMAT Payments from the private sector to government for government consumption are not “transfer payments.”
- Any carve out from Executive Order 13771 for “transfer payments” is limited to “Federal *spending* regulatory actions that cause *only* income transfers between taxpayers and program beneficiaries” (that is, the side that results in payment to a private sector entity, not the government revenue side of the transaction), and “action that establishes a new fee or changes the existing fee for a service, *without imposing any new costs*.”³⁹ REF _Ref523926138 \w \h * MERGEFORMAT The “annual practitioner fee” and addition of a PDF surcharge are new fee collections from the private sector for consumption by government. Neither is within any carveout.
- OMB’s *Implementing Guidance* states the scope of E.O. 13771 such that E.O. 13771 covers at least the annual practitioner fee and surcharge for PDF filing: “[R]egulatory actions [that] impose requirements apart from transfers ... need to be offset to the extent they impose more than *de minimis* costs. Examples of ancillary requirements that may require offsets include *new reporting or recordkeeping requirements* or *new conditions, other than user fees*, for receiving a grant, a loan, or a permit.” The fee-setting portion of the rule, and the annual practitioner fee and PDF surcharge are directed to covered payments from the public to government, not transfer payments from one private sector person to another.

At least parts of the NPRM are covered by EO 12866 and 13771. The claim for complete exemption is false.

These statements are directed to OMB review under the Paperwork Reduction Act and Executive Orders 12866 and 13771, and the Small Business Administration under the Regulatory Flexibility Act. In all these proceedings, OMB and SBA act *ex parte*. The PTO is cautioned to observe Virginia Bar Rule 3.3(c).⁴⁰ REF _Ref523926138 \w \h * MERGEFORMAT

A. The Regulatory Impact Statement fails to consider mandatory issues

This fee-setting regulation is “likely to result in ... annual effect on the economy of \$100 million or more,” E.O. 12866 § 3(f)(1), and thus requires a full Regulatory Impact Analysis

³⁸ OMB Circular A-4, *Regulatory Analysis*, at 38 (Sept. 17, 2003), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf>

³⁹ Executive Order 13771, Reducing Regulation and Controlling Regulatory Costs (Jan. 30, 2017), <https://www.federalregister.gov/documents/2017/02/03/2017-02451/reducing-regulation-and-controlling-regulatory-costs>; OMB Memorandum M-17-21, *Guidance Implementing Executive Order 13771, Titled “Reducing Regulation and Controlling Regulatory Costs”* Q&A 13 (Apr. 5, 2017), <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2017/M-17-21-OMB.pdf>

⁴⁰ <https://www.vsb.org/pro-guidelines/index.php/rules/advocate/rule3-3/>

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under Circular A-4. The RIA in the NPRM only considers non-starter alternatives like not raising fees at all, setting all fees at actual cost, applying only inflation adjustment. Of course, against these nonstarter strawmen, the PTO's preferred alternative looks really good. But that's not the way an RIA is supposed to work. The agency is supposed to compare the good approaches, not one plausible one against several bad ones.

A keyword search in the Regulatory Impact Analysis (both the 2019 RIA and the 2016 and 2013 RIA's) for words that ought to be there under OMB Circular A-4, aren't there. The required analysis is omitted.

The alternatives considered in the Regulatory Impact Analysis are strawmen, chosen to be unrealistic. Why is there no analysis of the proportional lockstep fee hike, relative to § 41 as a baseline?

The factors that an agency is directed to consider under Circular A-4 are designed to assist agencies in considering a range of regulatory alternatives, and to choose from among them to ensure that the agency considers all applicable laws, all applicable economic effects, and balances all regulatory priorities. As we noted in the opening to this letter, the laws are there to ensure that the PTO acts in the public interest. These laws are not "bureaucratic sport" or needless burden to be ignored.

Respectfully submitted,

Fifty patent practitioners on the signature page

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Attachments:

Exhibit A: Ron D. Katznelson, *The U.S. Patent Office's Proposed Fees Under the America Invents Act—Part I: The Scope of the Office's Fee-Setting Authority*, 85 BNA PAT. TM & COPYRIGHT J. 206 (Dec. 7, 2012).

Exhibit B: A copy of this letter prepared from the .docx of this letter as printed from Google Docs