November 5, 2012

By email: fee.setting@uspto.gov

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

Attn: Michelle Picard

Re: *Comments on Setting and Adjusting Patent Fees*, Notice of Proposed rulemaking, 0651-AC54, 77 *Fed. Reg.* 55028 (Sept. 6, 2012) ("NPRM")

Dear Under Secretary Kappos:

I am writing to provide comments in response to the NPRM published by the United States Patent and Trademark Office (the "Office" or the "PTO") on September 6, 2012. The NPRM proposes to set fees under the fee-setting authority in the America Invents Act ("AIA").[1]

As a founder of startups, a user of the patent system, and a named inventor on 23 U.S. patents, I support the Office's goal in reducing the patent application backlog, and applaud the Office's success in the last two years. I do recognize that patent fees must be adjusted – some requiring increases – in order to enable the Office's growing resource needs to be adequately funded.

That said, I note that like many other stakeholders, I opposed granting the PTO fee-setting authority under the AIA. That opposition was not only due to the inability of the Office to retain and access all collected fees. It was also due to concern for the elimination of the Congressional fee-setting oversight process that by representation inherently ensured the incorporation of *industry expertise* in broad areas of invention development and patent enforcement – expertise that the PTO lacks under its limited institutional role as a patent *issuer*. This also stemmed from a concern that certain critical fees would rise capriciously with insufficient data and analysis, perhaps with attention predominantly to revenue generation for the USPTO coupled with a desire to modify applicant behavior for the Office's administrative convenience rather than concern for the innovation economy. Unfortunately, it now appears that my concerns were well-founded.

I have embarked on a study of the Office's newly released information and Regulatory Impact Analysis and learned that there is simply no adequate time to

[1] P.L. 112–29, 125 Stat. 284 (Sept 16, 2011). See Sections 10 and 11.

complete a meaningful economic analysis of PTO's models, data and conclusions, by today's deadline for submitting comments. Unfortunately, the Office refused my request for extending the comment period to provide additional time to complete my analysis and I therefor offer comments only on the following items.

1 The USPTO's fee setting authority is limited

Section 10 of the AIA grants the USPTO authority to adjust fees only to recover aggregate costs, but the Office must still comply with other relevant law. For example, the Office must consider the Independent Offices Appropriations Act ("IOAA"), 31 U.S.C. § 9701, the Administrative Procedure Act, 5 U.S.C. § 500 *et seq*., the Paperwork Reduction Act, 44 U.S.C. § 3501 *et seq.*, and Executive Order 12,866. Without an express act of Congress, the Office's fee setting authority must be exercised within *all* current law, not just the AIA.[2]

Since 1952, agencies with fee-setting authority have been governed by the IOAA. If the PTO considered the IOAA in its rule making deliberations, there is no record of it. The Opinion of PTO's General Counsel in support of the fee-setting rule (the "Opinion") and the rationales stated in the NPRM suggest that the PTO may be entirely unaware of the statute.[3]

While Section 10 of the AIA authorizes the PTO to charge fees and, in general terms, recover aggregate costs, it makes no specific reference that sets aside the IOAA. Because there is nothing in the AIA or its legislative history to compel a different result, it 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.[4]

1.1 The PTO may not use fee-setting 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. For example, fees for

---

[2] *FCC v. Nextwave Personal Communications*, 537 U.S. 293, 305 (2003) ("[W]hen 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 Knight, Memorandum, USPTO Patent Fee Setting, http://www.uspto.gov/about/offices/ogc/Fee_Setting_Opinion.pdf (Feb. 10, 2012) (silent on IOAA); NPRM (silent on IOAA).

[4] U.S. General Accounting Office, *Principles of Federal Appropriations Law,* Vol. III, Ch. 12, pp. 172–174, (3rd Ed. Sep. 2008) (describing various agency-specific user fee statutes and collecting cases where those were treated by the courts *in pari materia* with the IOAA); *See also FCC v. Nextwave,* note 2 supra.

independent claims in excess of 3 are increased by 68% "to facilitate the prompt conclusion of prosecution of an application."[5] The NPRM admits that such claims fees are "fees that will not be set using cost data."[6] Noting that 30% of Requests for Continued Examination ("RCE") are second and subsequent RCEs, the NPRM proposes to increase fees for such applications by 83% and posits without any supporting evidence 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."[7] 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"[8] – clearly implying that the higher fee is set to discourage this particular service.

With respect to such purposes of fee setting, the 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."[9] (Emphasis in the original text). The Opinion concludes that "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"[10] (emphasis added.) This conclusion undergirds the NPRM's fee structure but it is unlikely to withstand court review.

Under the IOAA, the PTO has no authority to adjust fees "to encourage or discourage a particular activity."[11] This is because fee charges set to achieve *policy* goals are *taxes* and the PTO would be infringing "on Congress' exclusive power to levy taxes."[12] Rather, specific and express statutory authorizing language is required for agencies' encoding of policy through fees. The AIA provides no such express authority and in any event the legislative history forbids the PTO from doing so: it states that the AIA allows the USPTO to set or adjust fees "***so long as they do no more*** than reasonably compensate the USPTO for the services performed."[13] In setting fees not in accordance with the costs to the PTO for providing the associated service but to discourage certain filing activities, the PTO

---

[5] NPRM p. 55030.

[6] NPRM pp. 55040-41

[7] NPRM p. 55043.

[8] NPRM p. 55043.

[9] Opinion, p. 3.

[10] USPTO 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 .

[11] *Seafarers Intern. 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 Ass'n, Inc. v. U.S.,* 415 U.S. 336, 341 (1974)) (emphasis added.)

[12] *Id*.

[13] House Report 112–98, Part 1, (June 1, 2011), p. 49.

seeks to ***do more*** than merely recover its aggregate costs – it seeks to implement through the fee structure policies to affect applicants' behavior 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 fee-setting schemes based on such "judgments" spanning recent times (refusing to adopt PTO's proposed progressive fee increases in 2003) to as early as 1830, when it rejected a proposal for increasing patent fees to discourage "meritless applications."[14] In taking on a policy role not expressly specified in the statute, the PTO has exceeded its authority under the AIA. The PTO 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."[15]

1.2 In setting fees, the PTO must follow Congress' statutory scheme for fees.

Section 11 of the AIA expressly set fees as a framework from which the USPTO must work. Legislative history indicates that "[t]he Act includes the current patent fee schedule in the text. This schedule represents a reference point for any future adjustments to the fee schedule by the Director."[16] Moreover, legislative history demonstrates that the purpose of the fee-setting authority is to allow the Office to *temporally* adapt its fees, indicating that the present "scheme does not allow the USPTO to respond *promptly* to the challenges that confront it."[17] (Emphasis added).

It is suggested that the Office's authority mainly rests in making adjustments that are supported by cost data while retaining a reasonable semblance of the *relative* levels of fees as Congress set them in the AIA. In that context, "Aggregate cost recovery" means that fees paid in individual cases may not fully recover the Office's costs in that particular case but will do so over an aggregate of applications.

2 Conclusion

Congress once passed a law in 1980 that authorized the USPTO to set fees. However, two years later, Congress repealed that delegated authority, retaining for itself the critical task of balancing the interests of innovative economic developments with funding USPTO's operation.[18] More than three decades later, I

---

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

[15] *Railway Labor Executives' Ass'n v. National Mediation Bd.*, 29 F.3d 655, 670 (D.C.Cir.1994) (en banc).

[16] House Report 112–98, Part 1, (June 1, 2011), p. 49.

[17] House Report 112–98, Part 1, (June 1, 2011), p. 49. (Emphasis added).

[18] The current US patent fee structure has its roots over 30 years ago. In 1980, Congress changed the patent fee structure which had been in effect since 1965 by enacting H.R. 6933 into law – the Patent and Trademark Laws, Amendments, P.L. 96-517. This law raised patent user fees across

urge the PTO in this first-time fee-setting exercise to undertake its new authority with extreme care and resist using it contrary to Congressional intent – implementing fee structures for PTO's own administrative convenience or for promulgating policies that are beyond its limited role as a patent issuing agency.

Respectfully submitted,

/Ron Katznelson/

Ron D. Katznelson, Ph.D.

---

the board, established new patent maintenance fees, and *granted fee-setting authority to the USPTO*, to be exercised no more frequently than every three years. Prior to its taking effect, this law was amended by P.L. 97-247, the Patent and Trademark Office, Appropriation Authorization on August 27, 1982. The latter repealed the impending USPTO fee-setting authority but doubled the patent application, processing and maintenance fees from the levels authorized by P.L. 96-517. The increased fees went into effect on October 1, 1982.