

ADMINISTRATIVE POLICY



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Improving the Effectiveness of the U.S. Patent and Trademark Office

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THE U.S. PATENT SYSTEM is among the most effective in the world, measured in terms of both its geographic and economic scope and the varieties of the technologies protected. Critical to the continued effectiveness of the U.S. patent and trademark system is a well-functioning U.S. Patent & Trademark Office, which is currently a bureau of the Department of Commerce. Alas, the office does not function well today.

During the past several years Congress has studied the U.S. patent system with a view toward enacting comprehensive patent law reform, but as yet, no reforms have been enacted—notwithstanding a broad consensus on several of the matters that need to be addressed. The congressional reform effort stems from a comprehensive survey of the U.S. patent system undertaken by the National Academy of Sciences, which were

reflected in recommendations for improvement published in an NAS report.¹

A discussion of the NAS recommendations in full is beyond the scope of this essay, but they include, among other things, adopting a so-called first-inventor-to-file right of patent priority, post-review by the USPTO of granted patents, reform in the area of what must be disclosed to the USPTO, issues of willful infringement, and the standards of patentability. Unfortunately, controversy within U.S. industry and elsewhere on issues involving damages, interlocutory appeals from district court rulings, and venue for patent litigation has to date prevented enactment of any legislative reforms of the patent system.

Separately, the USTPO itself is undergoing an intensive review of its rigorous system of production goals in managing the more than 5,500

patent examiners assigned to examine more than 400,000 patent applications filed annually and to reach timely decisions on whether to grant or deny patents, based upon recommendations of both the Government Accountability Office and the Department of Commerce Office of the Inspector General.² But putting aside patent reform and the review of the examiner performance system, there are other areas where the USPTO is not serving the needs of inventors and high-technology industry as well as it should.

There are currently approximately 800,000 unexamined patent applications in the USPTO backlog. That number will continue to grow during the Obama administration, despite the fact that the USPTO has been hiring patent examiners at a rate of more than 1,200 each year since 2006.³ The time it takes to get a patent is now an average of 32.6 months, and it is as high as 44 months in the fast-moving technologies, for example, communications.⁴

The chief information officer of the Department of Commerce has recently criticized the information technology infrastructure of the USPTO as not being properly maintained and updated. Efforts are currently underway within the USPTO to address those concerns, among them:

- To establish the USPTO as an independent government corporation under the Government Corporation Control Act of 1945, 31 U.S.C. § 9101 et seq
- To provide adequate financial support to the USPTO without diverting USPTO fee income to unrelated government programs⁵
- To improve USPTO informed decision making through enhanced coordination with diverse constituencies that use USPTO services, including independent and corporate inventors
- To establish effective work-sharing arrangements with other national and regional (multinational) patent offices to avoid redundant examinations and enhance the quality of granted patents, both here and abroad.

This essay will examine each of these four recommendations in turn to illustrate why a better functioning USPTO will result in a far more effective, responsive, and robust U.S. patent system geared toward the granting of quality patents in a timely manner.

THE USPTO AS A GOVERNMENT CORPORATION

The USPTO has been in a state of organizational transition since 1991, when the concept of 100 percent user-fee financing became law.⁶ Eight years later, Congress enacted legislation convert the USPTO into a “Performance-Based Organization,”⁷ thereby providing some limited administrative flexibilities—especially in the areas of budget, employment levels, procurement, and property management. But these authorities, while desirable, do not exempt the USPTO from a much broader range of bureaucratic controls imposed upon typical federal agencies.

Stated differently, USPTO continues to be hampered in its commercial-like operations by an organizational framework that was not designed for the 21st century. The problem is simply this: the USPTO is unable to respond as quickly or effectively as it needs to in the face of a rapidly growing demand for high quality, timely service under the PBO framework. It is still subject to the political vagaries of the appropriations process and it cannot make strategic decisions effectively, including establishing pay and benefits systems that would make it more efficient and competitive with the private sector.

Two reports by the National Academy of Public Administration recommended that the USPTO be restructured as a government corporation under the Government Corporation Control Act of 1945.⁸ In the latter of those two reports, NAPA detailed the advantages of a federal corporation:

As a wholly owned government corporation, USPTO would be granted the operating and financial flexibility necessary to improve its operations. Specifically, it would have the following powers:

- Exempt from full-time equivalent, or FTE, hiring ceilings
- Authorized to set and revise fees for its services based on costs
- Ability to borrow for needed capital investments
- Access to all corporate revenues without needing annual appropriations

The 1995 Academy report concluded that such an organizational structure would "have the flexibility to reduce costs significantly by streamlining the procurement process and by making available to its customers the benefits of the latest advances in information technology and communication."⁹

Strong support for the concept of converting the USPTO to a government corporation will likely continue to come from such organizations as the American Intellectual Property Law Association, American Bar Association, National Association of Manufacturers, and the other trade associations, such as Intellectual Property Owners Association and Biotechnology Industry Organization.

ADEQUATE FINANCIAL SUPPORT FOR THE USPTO WITHOUT FEE DIVERSION

By its very nature, the patent-examining function—determining whether the claims of a patent application should be allowed (and included in a granted patent) or rejected—involves human decisions by patent examiners. State-of-the-art electronic databases and search systems can be used to find relevant prior art against which the examiners can decide whether or not an invention is patentable.

High-quality patents depend absolutely on a high-quality workforce of highly trained and dedicated professional patent examiners. Those key attributes have been recognized by every group that has studied the patent system in modern times. Case in point: a Presidential Commission on the Patent System established by President Lyndon B. Johnson recommended in 1966:

The commission cannot emphasize too strongly that the prime requirement for optimum Patent Office operation is a dedicated corps of career employees possessing a unique combination of scientific and engineering knowledge and the ability to make sound legal judgments. Assembling and retaining such a staff of highly trained professional personnel in a competitive manpower market requires, among other things, an increasing expenditure of resources.¹⁰

Diversion of fees paid by users of the U.S. patent system is inconsistent with this need for an adequate and skilled examining corps needed to keep pace with the USPTO workload, which is increasing both in magnitude and technological complexity. A Report of the National Academy of Sciences on "A Patent System for the 21st Century" recommended:

The patent bar has focused much attention on the fact that for the past several years the fees collected from patent applicants and patent holders have exceeded congressional appropriations to the USPTO by a substantial margin. Approximately \$638 million in revenue over 10 years and an estimated \$100 million in fiscal year 2004 have been spent on other governmental activities. ... The patent system serves the broad public purpose of stimulating technological innovation. Its budget should be determined on the basis of what resources are needed to perform the function well.¹¹

The Federal Trade Commission had earlier made a similar recommendation in its report, "To Promote Innovation." It recommended:

Participants in the Hearings unanimously expressed the view that the PTO lacks the funding necessary to address issues of patent quality. Presidential patent review committees have long advocated more funding for the PTO to allow it to improve patent quality. As recently as 2002,

the Patent Public Advisory Committee stated that the PTO faces a crisis in funding that will seriously impact ... the quality of ... issued patents. The FTC strongly recommends that the PTO receive funds sufficient to enable it to ensure quality patent review.¹²

A Report of the National Academy of Public Administration estimates that the current backlog of unexamined patent applications is the direct result of the fee diversions documented in the NAS and FTC reports. Had the USPTO not experienced diversions of \$680 million of user-fee revenues during the fiscal year 1990 to 2004 time period, then the time that it takes to examine a patent application would have averaged slightly over 21 months as compared with the 30 months to 40 months that it currently takes to process a patent application.¹³ In its report recommending that the USPTO be converted into a government corporation, the NAPA stated:

Whether USPTO remains a PBO [Performance Based Organization] or is established as a government corporation, all user fee revenues could be deposited and retained in a special fund (or corporate reserve) to either fund current operations or to build an operating reserve that would fund future operations if future collections are lower than expected (that is, insufficient to sustain operations in that year). Under this approach, the annual appropriation would release the amount of fee revenues to fund current year USPTO operations, but any withheld amount would be added to the reserve to be available to meet any unexpected revenue shortfalls in either the current or future years. In years when current revenues were actually less than the amount initially released in the appropriation act, the existing reserve level would be reduced to cover the shortfall. The user fee reform proposal could also call for establishing a designated operating reserve amount (based

on a target reserve level needed to assure continuous uninterrupted operations when revenues decline) and provide for a rebate of certain user fees or a reduction in future user fees when that designated reserve amount had been met.¹⁴

IMPROVING USPTO INFORMED DECISION MAKING

Historically, the USPTO has communicated to the patent and trademark community and to the public the problems and issues confronting it to solicit ideas for addressing them. Increasingly over the last three to four years, however, the USPTO has formulated new policies, rules, practices and procedures without any significant participation from its constituents. Further, when proposed rules have been published for comment, USPTO representatives give the clear impression that they are not seeking constructive comments and would not be responsive to better proposals. This has gradually led to deteriorating relations between the majority of the patent user community and the leadership in the USPTO.

For better informed decision making the USPTO should revise its current way of conducting business by making a concerted effort to engage its constituent groups early in the decision-making process by explaining the problems confronting them and soliciting public ideas before proposing new policies, rules, practices, and procedures. USPTO should convene public hearings or town hall meetings around the country to allow the public to participate in finding pragmatic solutions to the USPTO's problems while minimizing adverse impacts. This would also include making greater use of advance notices of proposed rulemaking; using speaking engagements by USPTO leaders to publicize the problems faced by the USPTO and the constraints it is under in seeking solutions, and becoming more transparent about how the USPTO operates.

The USPTO should allow adequate time for the public and users to study, reflect upon, and comment upon proposed policies and rules before implementing them. They should provide complete factual backgrounds and reasons for proposed rule packages, be cognizant of the needs of users, especially organizations, to consult internally, and always allow sufficient time for careful reflection and comment.

Moreover, since quality patent examination is of paramount importance, the USPTO should openly invite and consider new approaches from industry, academia, and the public at large to enhance the quality of the patent examination process. They should encourage suggestions for new techniques as alternatives to *ex parte* examination such as “peer-to-patent” third party participation in the examination process, expanded work-sharing with other national and regional patent offices using common search tools and techniques, adopting quality management systems, and implementing collaborative examination. The USPTO should also remain open to legislative reforms, which have the potential to enhance its efficiency and effectiveness.

EFFECTIVE WORK-SHARING WITH OTHER NATIONAL AND MULTINATIONAL PATENT OFFICES

There is a debilitating redundancy built into the current national/regional patent search, examination and enforcement systems. With respect to any important invention, highly skilled patent examiners around the world—all of whom are scientists or engineers and many of whom in addition, particularly in the United States, have legal training—analyze the same patent application, search the same prior art, and perform the same examination before granting virtually identical patents in their respective jurisdictions. Once granted, a patent must be enforced individually in each individual jurisdiction.

This unnecessary redundancy drives up the costs of and delays in obtaining and enforcing worldwide patent protection to a level that can only be afforded by the largest multinational corporations. The senior patent counsel of one of the world’s major research-based pharmaceutical companies estimates, for example, that it currently costs more than \$1 million to obtain comprehensive worldwide patent protection for an important chemical compound, and that figure is growing at a rate of 10 percent each year. The costly duplication of efforts also adversely affects the governments themselves, many of which are looking for ways to reduce the costs associated with patent protection within fixed or in many cases reduced budgets.

The Patent Cooperation Treaty also provides an important mechanism to reduce the duplication of search and examination efforts on patent applications filed in several nations. Recently, the USPTO entered into bilateral arrangements with several countries in what is referred to as a Patent Prosecution Highway, which provides search and examination results of one office to subsequent examining offices.¹⁵ Finally, the USPTO has undertaken to achieve harmonization of patent laws with other developed countries (referred to as a “Group B+”). These efforts should be encouraged as a way to improve the quality of granted patents and to cope with the enormous workload challenges experienced by the major patent-granting offices of the world.

CONCLUSION

Adoption of the recommendations included in this essay, together with adoption by Congress of the patent reform measures on which there is broad consensus today, will result in a far more effective, responsive, and robust U.S. patent system geared toward the grant of quality patents in a timely manner. Given enhanced international work sharing, which would be facilitated, the quality and timeliness of granted patents would be enhanced.

Establishing the USPTO as a government corporation would enhance its personnel management flexibility to facilitate a high-quality national examiner workforce, stemming the significant attrition of skilled patent examiners from the office. With reduced attrition of examiners and the institutionalizing of greater upfront interactions with patent practitioners outside of the office, improved informed decision making will be facilitated. With the adoption of these initiatives, the USPTO will be well positioned to be the premiere patent office in the world in the 21st century.

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NOTES

- 1 *A Patent System for the 21st Century*, Committee on Intellectual Property Rights in the Knowledge-Based Economy, National Research Council (National Academies Press, 2004).
- 2 Final Inspection Report No. IPE-15722, "USPTO Should Reassess How Examiner Goals, Performance Appraisal Plans, and The Award System Stimulate and Reward Examiner Production" (September 2004); GAO Report 07-1102, "Hiring Efforts are not Sufficient to Reduce the Patent Application Backlog" (September 2007).
- 3 USPTO Patent Data Update, FY08-Third Quarter (Department of Commerce).
- 4 Public Session, Patent Public Advisory Committee, August 8, 2008.
- 5 Under the Omnibus Budget Reconciliation Act of 1990, the USPTO has been fully funded by user fees, with no taxpayer money provided. Yet the USPTO continues to be subject to the annual appropriations process, and beginning in FY 1990 until FY 2004, that process shortchanged the USPTO by allocating \$680 million to other unrelated federal activities.
- 6 *Id.*
- 7 *The American Inventions Protection Act of 1999*, P.L. 106-113.
- 8 National Academy of Public Administration, "Incorporating the Patent and Trademark Office" (August 1995); "Restructuring the Patent and Trademark Office" (February 2003).
- 9 Footnotes omitted. NAPA, "Restructuring the Patent and Trademark Office" p. 12,13.
- 10 *"To Promote The Progress of . . . Useful Arts" in an Age of Exploding Technology*, Report of the President's Commission on the Patent System (1966), p. 45.
- 11 *A Patent System for the 21st Century*, footnote 1, p. 107-108.
- 12 *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, (Federal Trade Commission, October 2003), p. 12, 13. See also, The Advisory Commission on Patent Law Reform, Report to the Secretary of Commerce (Aug. 1992), available at <http://world.std.com/obi/USG/Patents/overview>; Report of the Industrial Subcomm. for Patent and Information Policy of the Advisory Comm. on Industrial Innovation, Report on Patent Policy (1979).
- 13 *U.S. Patent and Trademark Office: Transforming to Meet the Challenges of the 21st Century*, A Report by a Panel of the NAPA (August 2005) pages 42-46.
- 14 NAPA, "Restructuring the Patent and Trademark Office," footnote 9, p. 38.
- 15 See USPTO News and Notices at www.uspto.gov for notices regarding work-sharing agreements with the European Patent Office and the patent offices of Japan, Korea, Canada, Australia, Denmark, Germany, and the United Kingdom.