

**Regulatory Impact**

**Analysis**

**Setting and Adjusting Patent Fees during Fiscal Year 2017 in accordance with**

**Section 10 of the Leahy-Smith America Invents Act**

**Proposed Rule**

**U.S. Department of Commerce**

**United States Patent and Trademark Office**

**October 3, 2016**

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# EXECUTIVE SUMMARY

* 1. Purpose

The proposed rulemaking to set and adjust patent fees in accordance with section 10 of the Leahy-Smith America Invents Act (Act or AIA) (*see* “Setting and Adjusting Patent Fees during Fiscal Year 2017,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>) is economically significant and results in a need for a Regulatory Impact Analysis (RIA) under Executive Order 12866 Regulatory Planning and Review, 58 FR 51735 (Oct. 4, 1993). The AIA grants the Director of the United States Patent and Trademark Office (USPTO or Office) authority to set or adjust by rule patent fees established, authorized, or charged under Title 35 of the United States Code (U.S.C.). Patent fees may be set or adjusted only to recover the aggregate estimated cost of the Office’s patent operations, including administrative costs. This RIA reviews the alternatives considered for the patent fee schedule presented in the Notice of Proposed Rulemaking (NPRM) and analyzes their qualitative costs and benefits relative to each other and the proposed fee schedule.

* 1. Summary of Analysis

The Office analyzed four alternatives for how well they aligned to the Office’s rulemaking strategies and goals, which are comprised of strategic priorities (goals, objectives, and initiatives) from the *USPTO 2014-2018 Strategic Plan* (Strategic Plan) and the Office’s fee setting policy factors. From this conceptual framework, the Office assessed the absolute and relative qualitative costs and benefits of each alternative.

* Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017 – The proposed fee schedule detailed in the NPRM.
* Alternative 2: Unit Cost Recovery – A fee schedule that generally sets fees equal to their individual activity-based unit cost (where that information is available) to produce adequate revenue to fund approved budgetary requirements.
* Alternative 3: Across the Board Adjustment to Patent Fees – A fee schedule that generally applies a 5.0 percent inflationary factor to the Baseline (Alternative 4) to produce adequate revenue to fund approved budgetary requirements.
* Alternative 4: Baseline – Current fee schedule that became effective on January 1, 2014 (last revised April 9, 2016).

The Office intentionally developed and considered alternatives, aside from the Baseline alternative, that would recover the aggregate costs to the Office, as presented in the Fiscal Year (FY 2017) President’s Budget Submission (FY 2017 Budget). All four alternatives apply equally to all patent applicants regardless of the sector of the economy or technology field of the applicants. Neither the USPTO’s proposed fee schedule nor the other three alternatives discussed herein are designed to impose different costs on different technologies or sectors of the economy; in applying equally to all applicants and patent applications, all four alternatives are technology-neutral. Likewise, the aggregate increase in revenue over the Baseline for the three remaining alternatives considered is small enough (less than five percent) that the Office does not anticipate any adverse market impacts for consumers, i.e., the marginal change in patent user fee payments from patent applicants and holders to the Office should not increase consumer prices or the supply of patented goods available in the marketplace. All alternatives considered, except the Baseline, result in adequate revenues to support the Office’s strategic priorities, and the Office’s analysis in this RIA revolves around three qualitative costs and benefits: (1) fee schedule design, (2) securing aggregate revenue to cover aggregate cost, and (3) aggregate increase in user fee payments. This analysis does not include any monetized costs and benefits due to the Office’s interpretation of guidance to federal agencies in the Office of Management and Budget (OMB) Circular A-4, “Regulatory Analysis,” direct guidance from the OMB Office of Information and Regulatory Affairs (OIRA), and a lack of sufficient data.

Discussions of fee schedule design costs and benefits revolve around if, and how well, an alternative’s fee schedule, both individual fee amounts and their relationship to other fees in the fee schedule, aligns to the Office’s four key fee setting policy factors: foster innovation, align fees with the full cost of products and services, set fees to facilitate the effective administration of the patent and trademark systems, and offer application processing options for applicants. These four policy factors aim to tie individual fee changes to the Office’s core mission and strategic initiatives. The Office’s analysis of the four alternatives revealed that:

* Alternative 1, the Proposed Fee Schedule, offers fee schedule design benefits due to the way the Office proposes targeted fee changes that are aligned to the four policy factors while remaining responsive to public opinion as documented in the Patent Public Advisory Committee (PPAC) report on the Office’s initial proposal (*see* NPRM for a summary of the PPAC report and the Office’s response to feedback received).
* Alternative 2, the Unit Cost Recovery option, presents significant costs related to fee schedule design, because it essentially reverses the Office’s longstanding practice of setting some fees below cost to foster innovation. Instead, entry fees or those initial fees required to access the patent system (e.g., filing, search, and examination fees) are significantly higher under this alternative, potentially serving as a barrier to entry for some innovators. Further, back-end fees (e.g., maintenance fees) are considerably lower under this alternative, which could serve as a motivation for maintaining even low-value patents for longer than is beneficial to society.
* For Alternative 3, the Across the Board Adjustment, the fee schedule design offers no costs or benefits beyond the Baseline, because the fee schedule remains intact with changes only to the fee rates.
* Finally, the Baseline (Alternative 4) offers no new fee schedule design benefits or costs.
* In summary, while Alternatives 1, 3, and 4 have acceptable fee schedule designs, the fee schedule adjustments in Alternative 1 offer the greatest benefits over the Baseline.

Securing aggregate revenue to cover aggregate cost is the factor that assesses if, and how well, an alternative is projected to achieve the minimal level of revenue needed to sustain progress towards the Office’s core patent-related mission programs and the strategic priorities.  The Office discusses these programs and initiatives in detail in both the NPRM and the FY 2017 Budget. *See* annual budget available at<http://www.uspto.gov/about-us/performance-and-planning/budget-and-financial-information>. In summary, improving quality, optimizing both backlog (the inventory of pending applications awaiting examination) and pendency (the time it takes to have a patent application examined), continuing information technology (IT) system modernization and improvements, and building the operating reserve to the optimal level (three months of operating expenses) are key to the Office’s long-term commitment to help strengthen the innovation economy.

The Office’s analysis reveals that:

* Alternatives 1, 2, and 3 secure adequate aggregate revenues to fund the Office’s strategic priorities. Given their similar aggregate revenue projections over the five-year period, none of the three alternatives has an advantage over the others in terms of achieving the optimal operating reserve balance. All three build the operating reserve to the optimal level without significantly exceeding it during the five-year period. This effect is recognized as a benefit and a critical aspect to any alternative that the Office would propose.
* The Baseline (Alternative 4) is the only alternative considered that does not secure the necessary aggregate revenues to cover aggregate cost as presented in the FY 2017 Budget. Alternative 4 does not achieve the optimal operating reserve balance by or in FY 2021 and, therefore, is not considered a viable option.
* In summary, there is no demonstrable difference in the benefits associated with Alternatives 1, 2, and 3 for securing aggregate revenue to cover aggregate cost.

The aggregate increase in user fee payments is the factor that assesses how the overall change in user fees paid by patent applicants and holders changes as compared to the Baseline.

* When analyzing costs and benefits from the perspective of fee-paying patent stakeholders, the Office recognizes that any additional fees paid to the Office above the Baseline fee schedule, as is true for Alternatives 1, 2 and 3, represent a cost to patent applicants and holders.
* The opportunity cost of fees paid to the Office rather than invested in additional research and development (R&D), commercialization, or other activities that produce immediate and direct value to patent stakeholders warrants consideration in this analysis. However, assessing aggregate opportunity cost is a complex exercise. This analysis explores these costs at the conceptual level.
* In summary, given that Alternatives 1, 2 and 3, when compared to the Baseline, result in the same aggregate increase in user fee payments, no single alternative has a greater net cost than another.

The Office’s analysis of these three costs and benefits—fee schedule design, securing aggregate revenue to cover aggregate cost, and aggregate increase in user fee payments—is informed by activity based information, aggregate revenue estimates, and cost estimates related to the Office’s core mission programs and strategic initiatives. Where available, the Office uses this information to aid discussions about the magnitude of these sometimes competing costs and benefits to better inform discussions of net impacts.

* 1. Conclusion

This RIA concludes that the overall qualitative benefits to patent applicants, patent holders, other patent stakeholders, and society of the proposed fee schedule (Alternative 1) are significant. This RIA concludes that the proposed fee schedule has qualitative benefits related to the targeted fee changes reflected in the fee schedule design. Moreover, the proposed fee schedule secures the aggregate revenue while adhering to the Office’s fee setting strategies and goals, as described in Part III of the proposed rule and below. Patent applicants and holders can expect continued progress towards the Office’s strategic priorities of quality enhancements and optimizing the timeliness of patent processing (through reductions to backlog and pendency). The proposed schedule will also provide the resources the Office estimates are necessary to continue IT improvements as it works to improve operations and the customer experience with the USPTO. Along with these improvements, the proposed schedule will allow the Office to build and maintain a viable operating reserve level that fulfills the need to mitigate operational risk caused by financial resource volatility, i.e., unanticipated funding fluctuations.

* 1. Points of Contact
  + **Information:** Brendan Hourigan, Director of the Office of the Planning and Budget, by telephone at (571) 272-8966; or Dianne Buie, Office of Planning and Budget, by telephone at (571) 272-6301.

# GENERAL INFORMATION

* 1. Statement of Need for Action

Per the fee setting authority of section 10 of the AIA, the USPTO is issuing a proposed rule to set or adjust patent fees to secure sufficient aggregate patent fee revenue for the Office. The fee schedule in the NPRM will recover the aggregate estimated costs of patent operations while achieving the Office’s strategic goals as detailed in the Strategic Plan, which defines the USPTO’s mission, vision, and long-term goals and presents the actions the Office will take to realize those goals. The NPRM supports all three of the patent-related strategic goals: (1) to optimize patent quality and timeliness; (2) to pursue global intellectual property (IP) policy protection and enforcement to influence development of foreign IP systems; and (3) to achieve organizational excellence.

With the current proposed rule, the Office continues progress that started with the introduction of AIA fee setting authority. From 1982 until the passage of the AIA in 2011, the patent fees that generate most of the patent revenue (e.g., filing, search, examination, issue, and maintenance fees) were set by statute, and the Office could only adjust these fees to reflect changes in the Consumer Price Index for All Urban Consumers (CPI-U), as determined by the Secretary of Labor. Because these fees were set by statute, the USPTO could not realign or adjust fees to effectively respond to market demand or changes in processing costs other than for the CPI.

Section 10 of the AIA changed the Office’s fee setting model and authorized the USPTO to set or adjust patent fees within the regulatory process. Over the years, a steady increase in patent application workload, insufficient hiring levels, and funding variations (including shortfalls) owing to statutory fees led to significantly longer patent application pendency and a large backlog of patent applications in inventory by 2011. Long pendency and a large backlog of patent applications delay the delivery of patented innovations to market, thereby jeopardizing economic growth and commercialization. Section 10 better equips the Office to respond to its rapidly growing workload.

In FY 2013, the USPTO used the AIA’s fee setting authority to align patent fees in a timely, fair, and consistent manner by setting fees to enable sufficient resources needed to meet the Office’s strategic priorities of quality enhancements, backlog and pendency optimization, IT improvements, and financial sustainability. With the additional fees collected as a result of the January 2013 Setting and Adjusting Patent Fees Final Rule (hereinafter “the January 2013 Final Rule”), the Office has made considerable progress in reducing backlog and pendency: first action pendency fell from 21.9 months in FY 2012 to 17.3 months in FY 2015; total average pendency was reduced from 32.4 months in FY 2012 to 26.6 months in FY 2015; and the patent application backlog was reduced from 608,283 in FY 2012 to 553,221 at the end of FY 2015.

While the Office continues to build on the tangible successes of recent years, data suggests that the recent strengthening of the global economic environment will result in increased incoming application filings. The incoming workloads coupled with follow-on actions resulting from work already performed on the unexamined inventory is projected to lead to larger workloads overall. Thus, the Office recognizes there is still progress to be made to further optimize backlog and pendency. The NPRM details how the proposed fee schedule will produce the aggregate revenue needed to sustain progress towards Strategic Plan goals while also aligning to the key fee setting policy factors introduced in section 1. The goal of the NPRM is to establish a fee schedule that better supports patent applicants and patent holders and therefore effects positive change on the innovation economy.

* 1. Scope

The scope of this fee setting effort is patent fees that are established, authorized, or charged under Title 35 of the U.S.C. Using section 10 of the AIA, the USPTO is proposing to set or adjust 205 patent fees—51 apply to large entities (any reference herein to “large entity” includes all entities other than those that have established entitlement to either a small or micro entity fee discount); 54 apply to small entities; 53 apply to micro entities; and 47 apply irrespective of entity size.

Upon further review of the proposed rulemaking and source materials, and consistent with OMB Circular A-4, “Regulatory Analysis,” as discussed further below, the OIRA has indicated that it considers the proposed rulemaking to be a transfer payment from one group to another that does not affect the total resources available to society, and thus does not trigger a detailed analysis of monetized costs and benefits within the meaning of Executive Order 12866 and related directives.  OIRA also concluded that it is very difficult to precisely monetize and quantify costs and benefits in a transfer rule such as the proposed rule.  In such cases when monetization of benefits and costs is not easily accomplished, OMB A-4 advises that agencies should “still describe the benefit or cost qualitatively.” Thus, the scope of this RIA for the proposed rule outlines the transfer and assesses the qualitative costs and benefits that accrue to patent applicants, patent holders, and other patent stakeholders in the United States.

Lastly, it is important to note that the USPTO administers patent examination subject to statutes created by the U.S. Congress and by judicial decisions made by the federal courts. The importance of patenting in the United States goes back to Article I, Section 8, of the Constitution, which gave Congress the power to grant “for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” Congress itself established the USPTO in the Patent Act and most USPTO policies regarding patent examination and post-grant procedures—detailed in the Manual for Patent Examination Procedure (MPEP)—follow directly from statute (found primarily in 35 U.S. Code) or from various court decisions. In other words, the USPTO’s role is to examine patent applications in accordance with these various statutes and court decisions.

In accordance with the patent laws and USPTO’s Strategic Plan, USPTO places a high priority on (1) the quality of patents issued and (2) the timeliness of patent examination. Timeliness is important from more than a customer-service perspective. Pending patent applications can introduce a high level of uncertainty over the precise nature of any pending claims that may be allowed (or ultimately abandoned). This can slow innovation in those sections of the technology space most highly related to the pending applications in question. The sooner that other players in that technology space can know the precise disposition of the pending applications and the precise nature of any claims allowed, the better. This is especially true when the issued patents are of high quality, such that they are issued in compliance with all the requirements of Title 35 of the United States Code as well as the relevant case law at the time of issuance, and the property rights embedded in those patents are clear and well defined. Ultimately the goal of the USPTO should be the timely disposition of patent applications, while properly applying the existing law to create clear, well-defined property rights.

* 1. Assumptions and Constraints
     1. Assumptions
* The time horizon for the analysis is FY 2017 – FY 2021.
* The planned effective date for the new fee rates is mid-year FY 2017.
* The projected patent operating reserve balance at the end of FY 2016 is $310 million.
* The budgetary requirements, developed through the budget formulation process and contained in the FY 2017 Budget, along with target operating reserve levels, represent the aggregate costs to the Office over the stated time horizon.
* Applying the guidance in OMB A-4 and earlier guidance from OIRA, the Office concluded that the payment of fees under the proposed rule is primarily a transfer from one group to another that does not affect total resources available to society. Therefore, all analyses of costs and benefits discussed in this RIA are qualitative (rather than monetized).
* The Office estimates the amount of transfer payments from patent applicants and patent holders (*see* Tables 3-6, 3-7, and 3-8) and recognizes the amounts in the analysis of costs and benefits, although the analysis is qualified, not quantified (per OMB A-4). The Office also follows the guidance in OMB A-4 as a methodology for discounting transfers, including selecting appropriate discount rates. *See* OMB Circular A-4, available at [https://www.whitehouse.gov/omb/circulars\_a004\_a-4](https://www.whitehouse.gov/omb/circulars_a004_a-4/).
* The average annual growth of patent application filings is 2.9 percent over the period from FY 2017 through FY 2021. The Office estimates the growth in application filings using a regression model with real gross domestic product (RGDP) controls derived from the Congressional Budget Office (CBO), available at <https://www.cbo.gov/about/products/budget_economic_data>. The Office made calculations based on CBO’s August 2015 estimates.
* All dollar values in this document are in nominal terms, except those specifically identified otherwise (*see* Tables 3-6, 3-7, and 3-8). To calculate constant year (real) estimates for FY 2017 through FY 2022 (Base Year 2016), the Office used the CBO’s “10-Year Economic Projections” for the Consumer Price Index, All Urban Consumers (CPI-U). *See* CBO website, available at <https://www.cbo.gov/about/products/budget_economic_data#4>.
* The proposed rule does not impose different costs or burdens on applicants and patent holders based on technology type or their country of residence, i.e., United States or foreign. Based on FY 2014 USPTO data and consistent with preliminary FY 2015 data on patent filings, the Office estimates that 49.8 percent of patent filings are domestic and 50.2 percent are foreign. This data is available in the workload tables in the Performance and Accountability Report (PAR), <http://www.uspto.gov/sites/default/files/documents/USPTOFY15PAR.pdf>.
* The Office used the Patent Pendency Model (PPM) to estimate patent production, workload, changes in backlog and pendency, and associated staffing levels for each alternative. A description of the PPM, including a simulation tool, is available for review at <http://www.uspto.gov/learning-and-resources/statistics/patent-pendency-model>.
* Each year, the Office conducts a rigorous budget formulation process that entails validating current year requirements and formulating the budget and out year requirements based on a number of production models, such as the PPM and the Patent Trial and Appeal Board (PTAB) production models, as well as business cases for new initiatives.  The process is also based on a framework of continuous and comprehensive budget reviews designed to ensure that all operational and administrative costs are reviewed and funds are reallocated when necessary to focus on high-priority and effective programs—primarily core mission activities—and to mitigate risk by retaining operating reserve balances.
* The Office assumes that the relative similarity of the aggregate revenue totals for three of the four alternatives considered over the five-year horizon of this analysis does not produce variation in the PPM estimates. Therefore, all alternatives rely on a single PPM, which explains why backlog, pendency, and patents granted estimates are identical across these alternatives.
  + 1. Constraints
* Monetizing and quantifying certain impacts of patent fees on the economy and the rate of innovation are inherently difficult due to the number of variables involved, the difficulty in predicting economic activity, and the availability of data, especially data on private sector behavior. For example, the Office only collects data on innovation activity that results in a patent application or other action. Innovative actions that do not result in fees paid to the Office for a defined service are not captured in the Office’s databases, thus making it challenging to estimate and forecast the true breadth and depth of the IP economy for patents.
* The Office uses real gross domestic product (RGDP) as a general proxy for the health of the domestic economy.
* Estimates appearing in this RIA should not be taken to mean that the USPTO has calculated specific monetized costs or benefits for purposes of economic impacts. Rather, some dollar values appearing in this RIA are necessary for the Office to comply with the section 10 requirement that aggregate revenues recover aggregate costs for purposes of setting or adjusting fees for patent services.
* The Office acknowledges that there may be some price elasticity as a result of the fee changes in Alternatives 1 and 3; however, the Office did not quantify this impact as the change in demand for services is expected to be negligible based on the individual fee adjustment proposals. For Alternative 2, the Office recognizes that there would be elasticity related to both the increased entry fees and the lowered maintenance fee rates. Because of the difficulty in identifying the precise cross price elasticity, for the purposes of this analysis, the Office maintained consistent workloads across the alternatives in order to compare fee schedules on a static base.
  1. Patent System Overview

An analysis of the qualitative costs and benefits associated with the proposed fee schedule requires a basic understanding of the overall patent system. A detailed description of the patent process can be found on the USPTO Web site at <http://www.uspto.gov/patents/process/index.jsp>.

A U.S. patent is a property right granted by the Government of the United States of America to an inventor to exclude others from making, using, offering for sale, or selling an invention throughout the United States or importing the invention into the United States for a limited time in exchange for public disclosure of the invention when the patent is granted. Patents promote and incentivize innovation by granting inventors certain short-term exclusive rights to their inventions. This limited exclusive right is intended to stimulate inventive activity in multiple ways. First, the exclusivity made possible by a patent incentivizes inventors to undertake R&D and inventive labor. Second, an exclusive patent right incentivizes commercialization of an invention in the marketplace. That is, inventors may bring their inventions to market by self-commercialization or by either licensing (to earn royalties) or selling their inventions to other market participants (e.g., larger companies) who in turn commercialize that invention. Third, patent exclusivity provides a means for inventors to obtain capital financing (e.g., through venture capital) to self-commercialize. In exchange for exclusive rights to the invention, an inventor must disclose the invention to the public. Public disclosure of information helps avoid redundant R&D by others and promotes the dissemination of new technology and the development of innovations that build on current technology. A broad disclosure of the technology occurs when a patent application is published 18 months from the earliest effective filing date. A more specific disclosure on the scope of claims allowed occurs when the patent is granted.

The economy benefits from new products and services that would not otherwise be commercialized. Patented technologies are the source of entirely new industries (e.g., 3D printing technology), help bring new products and services to market (e.g., drugs and medical devices), and support new job creation (*see* Intellectual Property and the U.S. Economy: Industries in Focus, available at <http://www.uspto.gov/sites/default/files/news/publications/IP_Report_March_2012.pdf>). The idea that the U.S. economy depends on a balanced IP system that includes enforceable patents to provide incentives and benefits to conduct innovation was encapsulated in the *Strategy for American Innovation*, an executive initiative first released in September 2009, and updated in February 2011, that is available at <http://www.whitehouse.gov/innovation/strategy>. The *Strategy for American Innovation* recognizes that: (1) innovation is the foundation of American economic growth, leading to the creation of high-paying jobs and national competitiveness, and (2) public support for a workable IP rights system is one of the fundamental ways that government supports innovation. Economic growth in advanced economies like the United States is driven by the creation of new and better ways of producing goods and services, a process that triggers new and productive investments, which are the cornerstones of economic growth.

An efficient and effective patent system provides tools to protect new ideas and investments in innovation and creativity. In this way, an effective and efficient patent system benefits both inventors and the economy and is an important part of the *Strategy for American Innovation*. Without timely, clear, and effective patent rights, the value of IP and capital decreases, and uncertainty in the legal rights of new products increases. As a result, investments are either misdirected or not undertaken, and costly litigation is more likely to occur. Achieving the *Strategy for American Innovation* depends, in part, on the USPTO’s success in optimizing the patent application backlog and pendency—both of which stall the delivery of innovative goods and services to the market and impede economic growth and the creation of high-paying jobs. As noted throughout this document, the proposed fee schedule, as described in the NPRM, aims to continue the Office’s successes over the past three fiscal years through enhancements (quality), optimization (backlog and pendency), and modernizations (IT systems). The proposed changes in fee rates are not expected to have a material adverse impact on the level (or amount) of broad public disclosure and subsequent commercialization. As discussed in the elasticity supplement (*see* “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2017—Description of Elasticity Estimates,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>), the impact of the proposed fee rate changes on demand for services and the associated public disclosure is expected to be negligible. On the topic of commercialization, the Office recognizes that securing a patent is an early step in the sometimes long and often expensive process of transforming an innovation into a consumer product. Legal fees, research and development (more expensive in some industries than in others), licensing and royalties (where applicable), marketing, and production are all elements of the commercialization process in addition to patent fees. Given that patent fees are a proportionately small expense, the impact of the proposed fee rate changes on consumers of patented products—in the form of higher prices or fewer market choices—is also projected to be negligible.

# OVERVIEW OF ANALYSIS

* 1. Overview of Alternatives

The Office considered a total of four patent fee schedule alternatives.

* Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017 – The proposed fee schedule detailed in the NPRM.
* Alternative 2: Unit Cost Recovery – A fee schedule that generally sets fees equal to their individual activity-based unit cost (where that information is available) to produce adequate revenue to fund approved budgetary requirements.
* Alternative 3: Across the Board Adjustment to Patent Fees – A fee schedule that generally applies a 5.0 percent inflationary factor to the Baseline (Alternative 4) to produce adequate revenue to fund approved budgetary requirements.
* Alternative 4: Baseline – Current fee schedule that became effective on January 1, 2014 (last revised on April 9, 2016).
  1. Methodology

The Office considered the qualitative impact of several costs and benefits for each alternative, using key indicators when applicable. This section presents three methodologies used to develop information for this RIA: (1) activity-based costing; (2) aggregate patent fee revenue projections; and (3) aggregate patent cost projections.

* + 1. Activity-based costing

The Office used activity-based costing (ABC) methodology to execute the strategy of setting individual fees to further the key fee setting policy factor of aligning fees to the cost of the particular service. The historical cost of a particular service is derived from the Office’s Activity-Based Information (ABI). A discussion of the Office’s methodology and results is available in a separate document titled “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2017 – Activity Based Information and Patent Fee Unit Expense Methodology,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>. The Office used ABI cost data to inform most individual fee amounts in Alternative 2: Unit Cost Recovery.

While the Office does not use historical cost information to directly assess any costs or benefits in this RIA, where available, this information allowed the Office to assess how well different fee amounts aligned to their cost.

* + 1. Aggregate Fee Revenue Projections

The NPRM provides an extensive discussion of how the Office projects aggregate fee revenue (the total amount of money transferred to the USPTO by patent applicants and patent holders) by analyzing the RGDP (the broadest measure of economic activity) and other influential factors such as non-domestic patent activity, legislation, process efficiencies, fee changes, and anticipated applicant behavior. Additional detail about the Office’s aggregate fee revenue estimates for each alternative, including projected workloads by fee is available in “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2017 – Aggregate Revenue Tables,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>. A description of the Office’s methodology for using RGDP can be found in the section of the FY 2017 Budget entitled, “USPTO Fee Collection Estimates/Ranges.” For a discussion of how the Office projects revenues for each of the alternatives considered, see the Initial Regulatory Flexibility Analysis (IRFA) contained within the NPRM and also the “Setting and Adjusting Patent Fees during Fiscal Year 2017 – Aggregate Revenue Estimating Methodology” supplement.

In summary of the supplementary information listed above, to estimate aggregate revenue for the Baseline and other alternatives, the Office analyzed the relevant factors and indicators described above to estimate prospective fee workload volumes for the five-year planning horizon (FY 2017 – FY 2021). For the Baseline and other alternatives, the Office is assuming the same workloads (only the fee rate varies between alternatives). The Office recognizes that most fees have some price elasticity, which generally refers to how sensitive applicants and patentees are to fee (price) changes in terms of their decisions to pursue patenting. For Alternative 2, in particular, the Office recognizes that there would be elasticity related to both the increased entry fees and the lowered maintenance fee rates. Because of the difficulty in identifying the precise cross price elasticity, for the purposes of this analysis, the Office maintained consistent workloads across the alternatives in order to compare fee schedules on a static base. In the discussions of each alternative, this analysis includes additional insights on how elasticity could impact magnitude and directionality of change. A more detailed description of price elasticity is contained in the “USPTO Setting and Adjusting Patent Fees during Fiscal Year 2017 – Description of Elasticity Estimates,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>. Lastly, the Office also prepares a high-to-low range of fee collection estimates to account for the inherent sensitivity and volatility of predicting fluctuations in the economy and market environment. In this RIA, however, the projections presented are the mid-point fee collection estimates to simplify the analysis. Table 3-1 shows several of the Office’s planning metrics and their forecasted values at the end of the five-year period. The availability of aggregate revenue directly impacts the Office’s ability to deliver services per its performance commitments. The Baseline and three other alternatives use the same planning metrics shown in Table 3-1 when estimating aggregate revenue.

**Table 3-1**

| **Planning Metrics** | **Baseline and Alternatives** |
| --- | --- |
| Average First Action Pendency in FY 2021 | 10.1 months |
| Average Total Pendency in FY 2021 | 19.1 months |
| Total Serialized Application Filings FY 2017 – FY 2021 | 2.3 million |
| Total Patents Granted FY 2017 – FY 2021 | 1.6 million |

* + 1. Aggregate Patent Costs

Section 3.2 discusses how the Office develops and assesses its aggregate patent costs. As mentioned there and in the NPRM (*see* Part IV), the basis for calculating the aggregate patent costs is the routine USPTO budget formulation and planning process. The USPTO budget is a five-year plan (prepared annually) for carrying out base programs and implementing strategic priorities. The estimated budgetary requirements are the same for the Baseline and all alternatives. Aggregate patent costs is the total of estimated budgetary requirements and targeted operating reserve levels. Table 3-2 provides the projected aggregate patent revenue and aggregate patent costs for each alternative.

**Table 3-2**

| **Projected Aggregate Patent Costs and Aggregate Patent Revenue by Alternative (dollars in millions)** | | | | | |
| --- | --- | --- | --- | --- | --- |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** |
| **Budgetary Requirements** | $2,930 | $3,114 | $3,157 | $3,208 | $3,272 |
| **Other Income[[1]](#footnote-2)** | $18 | $18 | $18 | $18 | $18 |
| **Optimal Operating Reserve Level** | $732 | $778 | $789 | $802 | $818 |
| **Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017 – Aggregate Patent Revenue** | $2,951 | $3,260 | $3,265 | $3,412 | $3,599 |
| *EOY Operating Reserve Alternative 1:* | $349 | $513 | $639 | $861 | $1,206 |
| **Alternative 2: Unit Cost Recovery – Aggregate Patent Revenue** | $2,971 | $3,210 | $3,277 | $3,432 | $3,599 |
| *EOY Operating Reserve Alternative 2:* | $369 | $483 | $621 | $863 | $1,208 |
| **Alternative 3: Across the Board Adjustment to Patent Fees – Aggregate Patent Revenue** | $2,947 | $3,267 | $3,267 | $3,414 | $3,602 |
| *EOY Operating Reserve Alternative 3:* | $345 | $516 | $644 | $868 | $1,216 |
| **Alternative 4: Baseline – Aggregate Patent Revenue** | $2,878 | $3,110 | $3,110 | $3,250 | $3,429 |
| *EOY Operating Reserve Alternative 4:* | $277 | $292 | $264 | $325 | $501 |

Over the five-year timeframe of this analysis (FY 2017 – FY 2021), the Office projects that Alternatives 1, 2, and 3 would secure a sufficient amount of aggregate revenue to sustain progress on the Office’s core mission programs and strategic initiatives. The Baseline does not generate enough revenue to achieve the operating reserve minimum balance of $300 million until the end of FY 2020 and does not achieve the optimal three month patent operating reserve during the five year horizon. Section 4 provides detailed discussions of each alternative.

* 1. Overview of the Qualitative Costs and Benefits Across Alternatives

A high-level overview of the qualitative costs and benefits assessed in this RIA is presented below. Section 4 presents a more thorough description of each alternative and assess the relative costs and benefits. A summary of the identified qualitative costs and benefits for each alternative is contained inTable 3-3 below.

**Table 3‑3**

| **Costs and Benefits** | | | | |
| --- | --- | --- | --- | --- |
|  | **Alternative 4** | **Alternative 1** | **Alternative 2** | **Alternative 3** |
|  | **Baseline** | **Proposed Fee Schedule** | **Unit Cost Recovery** | **Across the Board Adjustment** |
| **Costs:** | | | | |
| Aggregate Increase in User Fee Payments | Neutral | $710 million  (Moderate) | $712 million  (Moderate) | $720 million  (Moderate) |
| Fee Schedule Design Costs | Neutral | *See benefits* | Significant | Neutral |
| **Overall Costs** | **Neutral** | **Minimal** | **Significant** | **Moderate** |
| **Benefits:** | | | | |
| Secure Aggregate Revenue to Cover Aggregate Costs | Neutral | Significant | Significant | Significant |
| Fee Schedule Design Benefits | Neutral | Significant | *See costs* | Neutral |
| **Overall Benefits** | **Neutral** | **Significant** | **Minimal** | **Moderate** |
| **Overall Net Benefits/Costs** | **Moderate Cost** | **Significant Benefit** | **Significant Cost** | **Moderate Benefit** |

### Qualitative Costs

This section summarizes features of the alternatives that represent a cost to one or more stakeholder groups. Table 3-4 shows the major qualitative costs associated with the alternatives considered in this analysis. If a cost applies to a certain alternative, it is denoted with a checkmark.

**Table 3‑4**

| **Cost Description** | **Alternative 4**  **Baseline** | **Alternative 1**  **Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017** | **Alternative 2**  **Unit Cost Recovery** | **Alternative 3**  **Across the Board Adjustment** |
| --- | --- | --- | --- | --- |
| Aggregate Increase in User Fee Payments | -- | ✓ | ✓ | ✓ |
| Secure Aggregate Revenue to Cover Aggregate Cost | ✓ | -- | -- | -- |
| Fee Schedule Design | -- | -- | ✓ | -- |

Alternatives 1, 2, and 3 have a cost for the aggregate increase in user fee payments, because each alternative’s fee schedule is projected to collect additional user fee payments as compared to the Baseline alternative. The Baseline (Alternative 4) has a cost for securing sufficient aggregate revenue to cover aggregate costs because it would not allow the USPTO to meet its Strategic goals. Finally, Alternative 2 has a cost related to fee schedule design because it is counter to the Office’s general philosophy to charge applicants and holders lower front-end fees and higher back-end fees when they have more information about the relative value of their innovation. These costs will be discussed in more detail in Section 4.

### 3.3.2 Qualitative Benefits

This section summarizes features of the alternatives that represent a benefit to one or more stakeholder groups. Table 3-5 shows the major qualitative benefits associated with the alternatives considered in this analysis. If a benefit applies to a certain alternative, it is denoted with a checkmark.

Table 3‑5

| **Benefit Description** | **Alternative 4**  **Baseline** | **Alternative 1**  **Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017** | **Alternative 2**  **Unit Cost Recovery** | **Alternative 3**  **Across the Board Adjustment** |
| --- | --- | --- | --- | --- |
| Secure Aggregate Revenue to Cover Aggregate | -- | ✓ | ✓ | ✓ |
| Fee Schedule Design Benefits | -- | ✓ | -- | -- |

All of the alternatives, other than the Baseline, secure sufficient aggregate revenue to cover aggregate costs. However, the only alternative that offers additional benefits related to fee schedule design is Alternative 1. These benefits will be discussed in more detail in Section 4.

### Transfer Estimates

The Baseline fee revenue for all patent fees was used to estimate the Baseline transfer amount. This is a reasonable Baseline estimate because these fees represent the current patent fee schedule, in the absence of the proposed rulemaking for setting or adjusting patent fees in accordance with AIA section 10.

Table 3-6, Table 3-7, and Table 3-8 compare the undiscounted and three and seven percent discounted amounts of transfers for each Alternatives 1, 2, and 3 to the Baseline. (As noted in section 2.3.1, the Office applies the guidance in OMB Circular A-4 to inform discount rates and methodology.) Dollar values reflected in Table 3-6, Table 3-7 and Table 3-8 are in constant FY 2016 dollars using the CBO estimate of CPI-U as the inflation index. The Office calculates transfers as the total amount of money paid by patent applicants and patent holders to the Office over the Baseline estimate. Across undiscounted and three and seven percent discount rates, the Office estimates the increase in transfers to be the greatest for Alternative 3, when compared to the Baseline. Alternative 1 and Alternative 2 are nearly equal over the five year time frame..

**Table 3‑6**

| **Patent Fee Transfers (Aggregate Fee Revenue)[[2]](#footnote-3) by Alternative – *Undiscounted* (dollars in millions)** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total** |
| **Baseline (Alternative 4) – Fee Revenue** | $2,815 | $2,974 | $2,907 | $2,968 | $3,059 | $14,723 |
| **Alternative 1: Proposed Alternative –Setting and Adjusting Patent Fees during Fiscal Year 2017 – Fee Revenue** | $2,887 | $3,117 | $3,052 | $3,116 | $3,210 | $15,382 |
| *Transfer Amount from Baseline for Alternative 1* | *$71* | *$143* | *$145* | *$148* | *$152* | *$659* |
| **Alternative 2: Unit Cost Recovery – Fee Revenue** | $2,906 | $3,069 | $3,064 | $3,134 | $3,211 | $15,383 |
| *Transfer Amount from Baseline for Alternative 2* | *$91* | *$95* | *$156* | *$166* | *$152* | *$660* |
| **Alternative 3: Across the Board Adjustment to Patent Fees – Fee Revenue** | $2,882 | $3,124 | $3,054 | $3,118 | $3,213 | $15,391 |
| *Transfer Amount from Baseline for Alternative 3* | *$67* | *$150* | *$147* | *$150* | *$155* | *$668* |

**Table 3‑7**

| **Patent Fee Transfers (Aggregate Fee Revenue) by Alternative – 3% *Discount* (dollars in millions)** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total (Net Present Value)** | **Annualized (Net Present Value)** |
| **Baseline (Alternative 4) - Fee Revenue** | $2,733 | $2,803 | $2,660 | $2,637 | $2,638 | $13,471 | $2,941 |
| **Alternative 1: Proposed Alternative – Set and Adjust Section 10 Fees - Fee Revenue** | $2,803 | $2,939 | $2,793 | $2,768 | $2,769 | $14,072 | $3,073 |
| *Transfer Amount from Baseline for Alternative 1* | *$70* | *$136* | *$133* | *$131* | *$131* | *$601* | *$131* |
| **Alternative 2: Fee Cost Recovery - Fee Revenue** | $2,821 | $2,893 | $2,804 | $2,784 | $2,769 | $14,071 | $3,072 |
| *Transfer Amount from Baseline for Alternative 2* | *$88* | *$90* | *$144* | *$147* | *$131* | *$600* | *$131* |
| **Alternative 3: Across-the-Board Adjustment to Patent Fees - Fee Revenue** | $2,798 | $2,945 | $2,795 | $2,770 | $2,772 | $14,080 | $3,074 |
| *Transfer Amount from Baseline for Alternative 3* | *$65* | *$142* | *$135* | *$133* | *$134* | *$609* | *$133* |

**Table 3‑8**

| **Patent Fee Transfers (Aggregate Fee Revenue) by Alternative – 7% *Discount* (dollars in millions)** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total (Net Present Value)** | **Annualized (Net Present Value)** |
| **Baseline (Alternative 4) - Fee Revenue** | $2,631 | $2,598 | $2,373 | $2,264 | $2,181 | $12,047 | $2,938 |
| **Alternative 1: Proposed Alternative – Set and Adjust Section 10 Fees - Fee Revenue** | $2,698 | $2,723 | $2,491 | $2,377 | $2,289 | $12,578 | $3,068 |
| *Transfer Amount from Baseline for Alternative 1* | *$67* | *$125* | *$118* | *$113* | *$108* | *$531* | *$130* |
| **Alternative 2: Fee Cost Recovery - Fee Revenue** | $2,716 | $2,681 | $2,501 | $2,391 | $2,289 | $12,578 | $3,068 |
| *Transfer Amount from Baseline for Alternative 2* | *$85* | *$83* | *$128* | *$127* | *$108* | *$531* | *$130* |
| **Alternative 3: Across-the-Board Adjustment to Patent Fees - Fee Revenue** | $2,694 | $2,729 | $2,493 | $2,378 | $2,291 | $12,585 | $3,069 |
| *Transfer Amount from Baseline for Alternative 3* | *$63* | *$131* | *$120* | *$114* | *$110* | *$538* | *$131* |

* 1. Summary of the Proposed Fee Schedule (Alternative 1)

The Accounting Statement (as shown in Table 3-9) summarizes the qualitative costs and benefits as well as other impacts of the patent fee schedule (Alternative 1) set forth in the proposed rule. Overall, this proposed fee schedule (Alternative 1) has significant qualitative benefits to patent applicants, patent holders, other patent stakeholders, and society, with minimal qualitative costs to the Office.

Table 3‑9

| **Agency/Program Office: United States Patent and Trademark Office**  **OMB #:**  **Rule Title: Setting and Adjusting Patent Fees during Fiscal Year 2017**  **RIN#: 0651-AD02**  **Date:** | | | | |
| --- | --- | --- | --- | --- |
| ***Category*** | ***Primary Estimate*** | ***Minimum Estimate*** | ***Maximum Estimate*** | ***Source Citation*** |
|  | **FY 2017 – FY 2021** | | |  |
| **BENEFITS (*see* section 4 for a detailed explanation of the benefits related to the baseline and alternatives)** | | | | |
| Incremental Unquantified (Qualitative) Benefits | The proposed fee schedule allows for enhanced quality, continued work towards reducing patent application backlog and pendency, continued improvements to the USPTO IT infrastructure, and gradually building a viable operating reserve. This significantly increases the value of patents by advancing commercialization of new technologies sooner and reduces uncertainty regarding the scope of patent rights, which fosters innovation and has a positive effect on economic growth. The fee schedule design is also improved over the current fee schedule to better support key policy factors. | | | RIA Section 4 |
| **COSTS (*see* section 4 for a detailed explanation of the costs related to the baseline and alternatives)** | | | | |
| Incremental Unquantified (Qualitative) Costs | The aggregate increase in user fee payments associated with the proposed fee scheduled is higher than the Baseline. | | | RIA Section 4 |
| **TRANSFERS (*see* section 3 for a detailed explanation of Transfers)** | | | | |
| Total Monetized Transfers: “On Budget” | $570 | $542 | $599 | RIA Section 3 |
| From Whom to Whom | From patent applicants and patent owners to the U.S. Government | | |  |
| **Other Impacts** | | | | |
| ***Category*** | ***Effects*** | | | ***Source Citation*** |
| Effects on State, Local, and/or Tribal Governments | n/a | | | n/a |
| Effects on Small Businesses | Changes in patent fees can affect further innovation and commercialization by small entities. The patent fee schedule includes discounts for small and micro entities for certain fees. The estimated impact on small businesses is addressed in the Initial Regulatory Flexibility Analysis. | | | Initial Regulatory Flexibility Analysis (IRFA) |
| Effects on Growth | The impact of patent fee changes on fostering innovation, which helps drive economic growth, was an important factor in this analysis. The proposed fee schedule enhances quality and reduces backlog and pendency, resulting in a decrease in uncertainty. | | | RIA |

The qualitative benefits of the proposed fee schedule (Alternative 1) are (1) improvements in the design of the fee schedule when bearing in mind key policy factors and (2) securing sufficient aggregate revenue to cover aggregate costs.

As to the first benefit, the design of the proposed fee schedule (Alternative 1) includes several changes that would better achieve fee setting policy factors than the current fee schedule. Specifically, the proposed fee schedule continues to foster innovation, competitiveness, and economic growth by keeping front-end fees below the Office’s cost to minimize barriers to entry into the patent system. Also, Alternative 1 consists of carefully targeted fee adjustments rather than increasing all fees. These targeted adjustments have been proposed to facilitate the effective administration of the patent system. Finally, Alternative 1 provides an additional patent prosecution option for applicants through a new Streamlined Reexamination option and establishes additional small and micro entity discounts for current services.

The proposed fee schedule also fulfils the goal of building a sustainable funding model by securing a minimum operating reserve balance in FY 2017 and gradually building from there to achieve the optimal target during the five year planning horizon. In the proposed fee schedule, the Office focused on prioritizing spending and gradually building the operating reserve in order to build resiliency against financial shocks. At optimal levels, the reserve will allow the Office to operate for three months in the event of interruptions in the ability to access collected fees, such as during a government shutdown. The reserve would be available during a period of unanticipated reductions in revenue or increases in operating expenses, such as during a domestic or global economic crisis, or major departures from the estimated number of patent applications received.

The qualitative cost identified in the proposed fee schedule (Alternative 1) is the aggregate increase in user fee payments. The aggregate increase in user fee payments associated with the proposed fee schedule (Alternative 1) is expected to be higher than the Baseline (Alternative 4). The additional fee revenue will allow the Office to continue strengthening work products, processes, services, and measurements of patent quality at all stages of the patent process; optimize patent application backlog and pendency (continuing work to decrease the backlog of patent applications in inventory); continue improving the IT infrastructure; and fund the patent operating reserve to gradually build the optimal three month reserve balance.

In summary, based on the analysis of costs and benefits, the overall benefit of the proposed fee schedule is the most significant. For a minimal cost, it supports key policy factors better than the other alternatives or the Baseline.

# ANALYSIS OF BASELINE AND ALTERNATIVES

The Office identified three alternative patent fee schedules and assessed them against the current patent fee schedule (Baseline) to assess their ability to meet the rulemaking’s strategies and goals. The subsections below provide a detailed description of the Baseline and other alternatives. Each description contains an overview of the key indicators impacting the costs and benefits of the alternative.

* 1. Baseline (Alternative 4, Current Fee Schedule)

**Table 4-1**

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total** |
| **Budgetary Requirements** | $2,930 | $3,114 | $3,157 | $3,208 | $3,272 | $15,681 |
| Alternative 4: Baseline – Fee Revenue | $2,878 | $3,110 | $3,110 | $3,250 | $3,429 | $15,777 |
| Other Income | $18 | $18 | $18 | $18 | $18 | $90 |
| **Aggregate Revenue** | $2,896 | $3,128 | $3,128 | $3,268 | $3,447 | $15,867 |
| Operating Reserve | $277 | $292 | $264 | $325 | $501 |  |
| Optimal Operating Reserve | $732 | $778 | $789 | $802 | $818 |  |
| **Operating Reserve Surplus (Deficit)** | ($455) | ($486) | ($525) | ($477) | ($317) |  |

* + 1. Description of the Baseline

The Baseline for this analysis is the current patent fee schedule that became effective on January 1, 2014 (last revised on April 9, 2016). The Office estimates that the Baseline would generate approximately $2.88 billion in patent fees during FY 2017, which is approximately $220 million more than the Office collected in FY 2015.

The Baseline would not secure aggregate revenue to cover aggregate costs laid out in the FY 2017 Budget. Under the Baseline, the Office only expects to collect sufficient to continue executing some, not all, of the Office priorities. For example, in FY 2017, it is estimated that 300 examiners will be hired so the Office can continue to reduce the patent application backlog and pendency. The Baseline provides sufficient resources to hire the same number of examiners, but will not provide sufficient resources to build the operating reserve to its optimal level in the five year planning horizon. As discussed in the NPRM and the FY 2017 Budget and as initially presented in the January 2013 Final Rule, funding an operating reserve as a part of the Office’s regular budgetary requirements aligns with the USPTO’s strategic priority to sustain long-term operational goals and prevent the USPTO from having to make short-term crisis-based spending changes that affect the delivery of the USPTO’s performance commitments.

* 1. Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017

**Table 4-2**

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total** |
| **Budgetary Requirements** | $2,930 | $3,114 | $3,157 | $3,208 | $3,272 | $15,681 |
| Alternative 1: Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017 – Fee Revenue | $2,951 | $3,260 | $3,265 | $3,412 | $3,599 | $16,487 |
| Other Income | $18 | $18 | $18 | $18 | $18 | $90 |
| **Aggregate Revenue** | $2,969 | $3,278 | $3,283 | $3,430 | $3,617 | $16,577 |
| Operating Reserve | $349 | $513 | $639 | $861 | $1,206 |  |
| Optimal Operating Reserve | $732 | $778 | $789 | $802 | $818 |  |
| **Operating Reserve Surplus (Deficit)** | ($383) | ($265) | ($150) | $59 | $388 |  |

* + 1. Description of Alternative 1

Alternative 1 is the recommended fee schedule set forth in the proposed rule. Transitioning to the proposed fee schedule in FY 2017 would provide the USPTO with a 2.5 percent increase in fee collections over the Baseline fee collection level. Once fully transitioned to the new fee collection level, the Office estimates that FY 2018 fee collections would exceed FY 2018 Baseline fee collections by 4.8 percent. The aggregate revenue would be sufficient to recover the aggregate cost of patent operations, to support the Office’s strategic priorities to enhance quality, optimize timeliness of patent processing, and implement a sustainable funding model for operations. With Alternative 1, the Office projects to first reach the optimal operating reserve balance by the end of FY 2020, and FY 2021 would be the first year in which the optimal operating reserve balance would be in place at the beginning of the fiscal year. The FY 2021 optimal reserve balance is projected to be $818 million, and the projected reserve level entering the fiscal year is $861 million. The USPTO will continue to assess the patent operating reserve balance against its target balance annually, and at least every two years, the Office will evaluate whether the target balance continues to be sufficient to provide the funding stability needed by the Office. Per the Office’s operating reserve policy, if the operating reserve balance is projected to exceed the optimal level by 10 percent for two consecutive years, the Office will consider fee reductions. It is important for the Office to balance accomplishing the priorities together so that once it achieves the pendency goals, it has sufficient resources to maintain them. The proposed fee schedule also aligns with the Office’s fee setting policy factors.

Like the Baseline, Alternative 1 sets many fees either below or above cost consistent with the key policy factors of fostering innovation, facilitating effective administration of the patent system, and offering patent prosecution options for applicants (*see* Table 4-3). The proposed fee schedule also maintains the front-end/back-end balance that has been the cornerstone of the patent fee schedule design for years.

**Table 4-3**

|  | **Patent Fee Rates** |  |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 1 Fee Rate** |
| Filing | $280 | $300 |
| Search | $600 | $660 |
| Examination | $720 | $760 |
| First RCE | $1,200 | $1,300 |
| **Front-End Fees** | **$2,800** | **$3,020** |
| Issue | $960 | $1,000 |
| 1st Stage Maintenance | $1,600 | $1,600 |
| 2nd Stage Maintenance | $3,600 | $3,600 |
| 3rd Stage Maintenance | $7,400 | $7,400 |
| **Back-End Fees** | **$13,560** | **$13,600** |
| **Total Fees** | **$16,360** | **$16,620** |

As shown in Table 4-3, the cost of securing and maintaining a patent through a typical prosecution sequence for its full 20-year term increases by $260 (1.6 percent) for Alternative 1. Assuming a three percent discount rate, the net present value of investing in a patent for Alternative 1 is $12,400, compared to a net present value of $12,157 for the Baseline.

Section 4.2.3 presents the fee schedule design as a benefit of this alternative and presents numerous examples of how this alternative is uniquely responsive to stakeholder feedback in ways the other alternatives are not. Section 4.2.2 notes that the aggregate revenue in this alternative would be higher than the Baseline, which means that there is an increase in total user fee payments.

Table 4-4 presents fee adjustments included in Alternative 1 that have the greatest impact on patent revenue. Large, small, and micro entity dollar and percent changes are compared to current large, small, and micro entity fees. A complete list of fee changes for Alternative 1 can be found in the document titled “Table of Patent Fee Changes – Current, Proposed and Unit Cost Recovery,” available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>.

Table 4‑4

| **Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees During Fiscal Year 2017 Current and Proposed Fees** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Utility (Electronic Filing) | $280 | $70 | $70 | $300 | $75 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Design | $180 | $90 | $45 | $200 | $100 | $50 |
| **11%** | **11%** | **11%** |
| Basic Filing Fee – Design (CPA) | $180 | $90 | $45 | $200 | $100 | $50 |
| **11%** | **11%** | **11%** |
| Basic Filing Fee – Plant | $180 | $90 | $45 | $200 | $100 | $50 |
| **11%** | **11%** | **11%** |
| Provisional Application Filing Fee | $260 | $130 | $65 | $280 | $140 | $70 |
| **8%** | **8%** | **8%** |
| Basic Filing Fee – Reissue | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Reissue (CPA) | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Surcharge – Late Filing Fee, Search Fee, Examination Fee or Oath or Declaration, or Application Filed Without at least One Claim or by Reference | $140 | $70 | $35 | $160 | $80 | $40 |
| **14%** | **14%** | **14%** |
| Each Independent Claim in Excess of Three | $420 | $210 | $105 | $460 | $230 | $115 |
| **10%** | **10%** | **10%** |
| Each Reissue Independent Claim in Excess of Three | $420 | $210 | $105 | $460 | $230 | $115 |
| **10%** | **10%** | **10%** |
| Each Claim in Excess of 20 | $80 | $40 | $20 | $100 | $50 | $25 |
| **25%** | **25%** | **25%** |
| Each Reissue Claim in Excess of 20 | $80 | $40 | $20 | $100 | $50 | $25 |
| **25%** | **25%** | **25%** |
| Multiple Dependent Claim | $780 | $390 | $195 | $820 | $410 | $205 |
| **5%** | **5%** | **5%** |
| Submission of sequence listings of 300MB to 800MB (NEW) | n/a | n/a | n/a | $1,000 | $500 | $250 |
| **n/a** | **n/a** | **n/a** |
| Submission of sequence listings of more than 800 MB (NEW) | n/a | n/a | n/a | $10,000 | $5,000 | $2,500 |
| **n/a** | **n/a** | **n/a** |
| Utility Search Fee | $600 | $300 | $150 | $660 | $330 | $165 |
| **10%** | **10%** | **10%** |
| Design Search Fee | $120 | $60 | $30 | $160 | $80 | $40 |
| **33%** | **33%** | **33%** |
| Plant Search Fee | $380 | $190 | $95 | $420 | $210 | $105 |
| **11%** | **11%** | **11%** |
| Reissue Search Fee | $600 | $300 | $150 | $660 | $330 | $165 |
| **10%** | **10%** | **10%** |
| Utility Examination Fee | $720 | $360 | $180 | $760 | $380 | $190 |
| **6%** | **6%** | **6%** |
| Design Examination Fee | $460 | $230 | $115 | $600 | $300 | $150 |
| **30%** | **30%** | **30%** |
| Plant Examination Fee | $580 | $290 | $145 | $620 | $310 | $155 |
| **7%** | **7%** | **7%** |
| Reissue Examination Fee | $2,160 | $1,080 | $540 | $2,200 | $1,100 | $550 |
| **2%** | **2%** | **2%** |
| Utility Issue Fee | $960 | $480 | $240 | $1,000 | $500 | $250 |
| **4%** | **4%** | **4%** |
| Reissue Issue Fee | $960 | $480 | $240 | $1,000 | $500 | $250 |
| **4%** | **4%** | **4%** |
| Design Issue Fee | $560 | $280 | $140 | $800 | $400 | $200 |
| **43%** | **43%** | **43%** |
| Plant Issue Fee | $760 | $380 | $190 | $1,000 | $500 | $250 |
| **32%** | **32%** | **32%** |
| Petition for the Delayed Payment of the Fee for Maintaining a Patent in Force | $1,700 | $850 | | $2,000 | $1,000 | $500 |
| **18%** | **18%** | **-41%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,200 | $600 | $300 | $1,300 | $650 | $325 |
| **8%** | **8%** | **8%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,700 | $850 | $425 | $1,900 | $950 | $475 |
| **12%** | **12%** | **12%** |
| Submission of an Information Disclosure Statement | $180 | $90 | $45 | $240 | $120 | $60 |
| **33%** | **33%** | **33%** |
| Certificate of Correction | $100 | | | $150 | | |
| **50%** | | |
| Processing Fee for Correcting Inventorship in a Patent | $130 | | | $150 | | |
| **15%** | | |
| *Ex Parte* Reexamination (§ 1.510(a)) Streamlined (NEW) | n/a | n/a | n/a | $6,000 | $3,000 | 1,500\* |
| **n/a** | **n/a** | **n/a** |
| Each Reexamination Independent Claim in Excess of Three and Also in Excess of the Number of Such Claims in the Patent Under Reexamination | $420 | $210 | $105 | $460 | $230 | $115 |
| **10%** | **10%** | **10%** |
| Each Reexamination Claim in Excess of 20 and Also in Excess of the Number of Claims in the Patent Under Reexamination | $80 | $40 | $20 | $100 | $50 | $25 |
| **25%** | **25%** | **25%** |
| Notice of Appeal | $800 | $400 | 200\* | $1,000 | $500 | 250\* |
| **25%** | **25%** | **25%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,000 | $1,000 | 500\* | $2,500 | $1,250 | 625\* |
| **25%** | **25%** | **25%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $9,000 | | | $14,000 | | |
| **56%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $14,000 | | | $16,500 | | |
| **18%** | | |
| *Inter Partes* Review Request of Each Claim in Excess of 20 | $200 | | | $300 | | |
| **50%** | | |
| *Inter Partes* Post-Institution Request of Each Claim in Excess of 15 | $400 | | | $600 | | |
| **50%** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $12,000 | | | $16,000 | | |
| **33%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $18,000 | | | $22,000 | | |
| **22%** | | |
| Post-Grant or Covered Business Method Review Request of Each Claim in Excess of 20 | $250 | | | $375 | | |
| **50%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Request of Each Claim in Excess of 15 | $550 | | | $825 | | |
| **50%** | | |
| Petition for Revival of an Abandoned Application for a Patent, for the Delayed Payment of the Fee for Issuing Each Patent, or for the Delayed Response by the Patent Owner in any Reexamination Proceeding | $1,700 | $850 | $850 | $2,000 | $1,000 | $500 |
| **18%** | **18%** | **-41%** |
| Petition for the Delayed Submission of a Priority or Benefit Claim, or to Restore the Right of Priority or Benefit | $1,700 | $850 | $850 | $2,000 | $1,000 | $500 |
| **18%** | **18%** | **-41%** |
| Hague International Design Application Fees – Transmittal Fee | $120 | | | $120 | $60 | $30 |
| **0%** | **-50%** | **-75%** |
| Petition to convert an international design application to a design application under 35 U.S.C. chapter 16 | $180 | | | $180 | $90 | $45 |
| **0%** | **-50%** | **-75%** |
| Petition to Excuse Applicant's Failure to Act Within Prescribed Time Limits in an International Design Application | $1,700 | $850 | $850 | $2,000 | $1,000 | $500 |
| **18%** | **18%** | **-41%** |
| Basic National Stage Fee | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| National Stage Search Fee – U.S. Was the ISA | $120 | $60 | $30 | $140 | $70 | $35 |
| **17%** | **17%** | **17%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $480 | $240 | $120 | $520 | $260 | $130 |
| **8%** | **8%** | **8%** |
| National Stage Search Fee – All Other Situations | $600 | $300 | $150 | $660 | $330 | $165 |
| **10%** | **10%** | **10%** |
| National Stage Examination Fee – All Other Situations | $720 | $360 | $180 | $760 | $380 | $190 |
| **6%** | **6%** | **6%** |
| National Stage – Each Independent Claim in Excess of Three | $420 | $210 | $105 | $460 | $230 | $115 |
| **10%** | **10%** | **10%** |
| National Stage – Each Claim in Excess of 20 | $80 | $40 | $20 | $100 | $50 | $25 |
| **25%** | **25%** | **25%** |
| National Stage – Multiple Dependent Claim | $780 | $390 | $195 | $820 | $410 | $205 |
| **5%** | **5%** | **5%** |
| Late Filing of Sequence Listing (NEW) | n/a | | | $300 | $150 | $75 |
| **n/a** | **n/a** | **n/a** |
| Copy of Patent Application as Filed | $20 | | | $35 | | |
| **75%** | | |
| Copy of Patent-Related File Wrapper and Contents of 400 or Fewer Pages, if Provided on Paper | $200 | | | **Discontinue** | | |
|
| Additional Fee for Each Additional 100 Pages of Patent-Related File Wrapper and (Paper) Contents, or Portion Thereof | $40 | | | **Discontinue** | | |
|
| Copy Patent File Wrapper, Paper Medium, Any Number of Sheets (NEW) | n/a | | | $280 | | |
| **n/a** | | |
| Copy Patent File Wrapper, Electronic Medium, Any Size (NEW) | n/a | | | $55 | | |
| **n/a** | | |
| Copy of Patent-Related File Wrapper and Contents if Provided Electronically or on a Physical Electronic Medium as Specified in 1.19(b)(1)(ii) | $55 | | | **Discontinue** | | |
| Additional Fee for Each Continuing Physical Electronic Medium in Single Order of 1.19(b)(1)(ii)(B) | $15 | | | **Discontinue** | | |
| Copy of Patent-Related File Wrapper Contents That Were Submitted and are Stored on Compact Disk or Other Electronic Form (e.g., Compact Disks Stored in Artifact Folder), Other Than as Available in 1.19(b)(1); First Physical Electronic Medium in a Single Order | $55 | | | **Discontinue** | | |
| Additional Fee for Each Continuing Copy of Patent-Related File Wrapper Contents as Specified in 1.19(b)(2)(i)(A) | $15 | | | **Discontinue** | | |
| Copy of Patent-Related File Wrapper Contents That Were Submitted and are Stored on Compact Disk, or Other Electronic Form, Other Than as Available in 1.19(b)(1); if Provided Electronically Other Than on a Physical Electronic Medium, per Order | $55 | | | **Discontinue** | | |
| For Assignment Records, Abstract of Title and Certification, per Patent | $25 | | | $35 | | |
| **40%** | | |
| Uncertified Statement Re Status of Maintenance Fee Payments | $10 | | | **Discontinue** | | |
| Petitions for documents in form other than that provided by this part, or in form other than that generally provided by Director, to be decided in accordance with merits. | at cost | | | **Discontinue** | | |
| Recording Each Patent Assignment, Agreement or Other Paper, per Property – if Not Submitted Electronically | $40 | | | $50 | | |
| **25%** | | |
| Labor Charges for Services, per Hour or Fraction Thereof | $40 | | | **Discontinue** | | |
| Unspecified Other Services, Excluding Labor | at cost | | | **Discontinue** | | |
| Additional Fee for Overnight Delivery (NEW) | n/a | | | $40 | | |
| **n/a** | | |
| Additional Fee for Expedited Service (NEW) | n/a | | | $160 | | |
| **n/a** | | |
| Application Fee (Non-Refundable) | $40 | | | $100 | | |
| **150%** | | |
| Registration to Practice or Grant of Limited Recognition Under § 11.9(b) or (c) | $100 | | | $200 | | |
| **100%** | | |
| On Grant of Limited Recognition Under § 11.9(b) (NEW) | n/a | | | $200 | | |
| **n/a** | | |
| Certificate of Good Standing as an Attorney or Agent | $10 | | | $40 | | |
| **300%** | | |
| Certificate of Good Standing as an Attorney or Agent, Suitable for Framing | $20 | | | $50 | | |
| **150%** | | |
| Review of Decision by the Director of Enrollment and Discipline Under § 11.2(c) | $130 | | | $400 | | |
| **208%** | | |
| Review of Decision of the Director of Enrollment and Discipline Under § 11.2(d) | $130 | | | $400 | | |
| **208%** | | |
| Administrative Reinstatement Fee | $100 | | | $200 | | |
| **100%** | | |
| Establish OED Information System Customer Interface Account (ID & Password) – Performed by OED (NEW) | n/a | | | $70 | | |
| **n/a** | | |
| Roster Maintenance in OED Information System Customer Interface (Change of Address) – Performed by OED (NEW) | n/a | | | $70 | | |
| **n/a** | | |
| Registration Examination Review Session (NEW) | n/a | | | $450 | | |
| **n/a** | | |
| Establish Deposit Account | $10 | | | **Discontinue** | | |
| Computer Records | at cost | | | **Discontinue** | | |
| Copy of Patent Grant Single-Page TIFF Images | n/a | | | $10,400 | | |
| **n/a** | | |
| Copy of Patent Grant Full-Text W/Embedded Images, Patent Application Publication Single-Page TIFF Images, or Patent Application Publication Full-Text W/Embedded Images (NEW) | n/a | | | $5,200 | | |
| **n/a** | | |
| Copy of Patent Bibliographic Extract and Other DVD (Optical Disc) Products (NEW) | n/a | | | $50 | | |
| **n/a** | | |
| Copy of U.S. Patent Custom Data Extracts (NEW) | n/a | | | $100 | | |
| **n/a** | | |
| Copy of Selected Technology Reports, Miscellaneous Technology Areas (NEW) | n/a | | | $30 | | |
| **n/a** | | |
| Self-Service Copy Charge, per Page | $0.25 | | | **Discontinue** | | |

* + 1. Costs of Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017

In this alternative aggregate revenue will increase over the Baseline. This means that users will be paying increased fees, which is considered a cost for this analysis. It is estimated that this proposal would result in an additional $710 million in additional user fee payments over the five year time horizon as compared to the Baseline.

* + 1. Benefits of Alternative 1 – Proposed Fee Schedule – Setting and Adjusting Patent Fees during Fiscal Year 2017

The Office identified two benefits for Alternative 1: fee schedule design benefits and securing aggregate revenue to cover aggregate costs. The following discussion of the fee schedule design benefits evaluates how the fees adjustments reflect the key fee setting policy factors, namely, fostering innovation, aligning fees with the full cost of products and services, facilitating effective administration of the patent system, and offering patent prosecution options for applicants. This discussion only includes fees for which the Office can draw reasonable conclusions about the benefits as they relate to fee schedule design; therefore, the discussion that follows does not address all of the fees included in Table 4-4. A more detailed discussion of the fee change rationale for each fee is available in Section V of the NPRM.

1. ***Fostering innovation by setting select fees below cost:*** Currently, the large entity filing, search, and examination fees for a utility patent recover only a portion of the average unit cost for prosecuting a patent application (*see* USPTO Setting and Adjusting Patent Fees during Fiscal Year 2017 – Activity Based Information and Patent Fee Unit Expense Methodology). This alternative continues the long-standing policy factor of fostering innovation by keeping front-end fees (e.g., filing, search, and examination) below cost with a back-end subsidy.

To help balance aggregate costs with aggregate revenues, the Office is proposing to increase the total filing, search, and examination fees in this alternative to recover slightly more of the average unit cost for processing a patent application while keeping the total fees paid below the Office’s costs (*see* cost at Table 4-7). Maintaining below-cost entry fees as part of the fee schedule design is a benefit and supports the key fee setting policy consideration of fostering innovation*.*

In addition to front-end utility fee rate changes, fee rates for Design and Plant applications are proposed to increase; still, these fees continue to be partially subsidized by other fees to foster innovation.

The Office proposes to further foster innovation under this alternative by expanding micro entity discounts to five petition fees and to the Hague International Design Transmittal fee, small entity discounts would be expanded to one petition fee and the Hague International Design Transmittal fee. Expanding the number of fees for which small and micro entity discounts are available fosters innovation by helping to ensure that patent services and products are accessible to all users of the patent system.

1. ***Aligning fees with the full cost of products and services:*** The fee schedule proposed in Alternative 1 better aligns the full cost of products and services without increasing the fee rate for every fee code. One example of this is the PTAB trial fees. In FY 2015, the PTAB received over 1,900 AIA trial filings and the Office expects that number to grow in the coming fiscal years. In order to keep up with demand and continue to provide high quality decisions within the statutory time limits, the Office needs to close the gap between the cost and the fees for performing these services. When the Office initially set fees for these services in FY 2012, the resulting fees were not based on historical cost information. Given that the trials have been in place for three fiscal years, the Office has actual historical cost data available to more accurately set these fees and recover costs. By targeting a fee increase to the AIA trial fees, the Office is proposing to reduce the subsidization of these proceedings, allowing for the Office to keep other unrelated fee rates unchanged.
2. ***Facilitating effective and efficient administration of the patent system:*** The Office proposes two new fees to manage handling of sequence listings of 300 MB or more. Pricing for this fee is divided into two tiers with Tier One for file sizes 300MB to 800MB and Tier Two for file sizes greater than 800MB. The level of effort associated with the handling of mega-sequence listings is significant, because the Office’s systems require extra storage and special handling for files beyond 300 MB. The Office has not yet collected actual cost data for sequence listings with file sizes of 300 MB or greater. However, based on historical data, on average, less than 10 applications per year contained sequence listing files greater than 300MB. Based on previously filed applications with lengthy sequence listings, the Office determined that some applications disclosed sequence data that met the length thresholds for being included in the sequence listing but that was neither invented by the applicants nor claimed. Mega-sequence listings, in particular, often included sequences that were available in the prior art, were not essential material, and could have been described instead, for example, by name and a publication or accession reference. Further, claims accompanying such applications were frequently directed to the manipulation of sequence data rather than the substance of the sequences themselves. Submission of a mega-sequence listing in these applications would not have been necessary to complete the application if applicants limited the number of sequences that were described in such a way as to be required in a sequence listing. The proposed fee should encourage applicants to draft their specifications such that sequence data that is not essential material is not required to be included in a sequence listing. A reduced number of mega-sequence listings will benefit the USPTO and the public by reducing the strain on Office resources, thus facilitating the effective administration of the patent system.

Another proposed fee change that would facilitate the effective administration of the patent system is a new fee to encourage timely filing of sequence listings in international applications. When an applicant does not provide a sequence listing in searchable format with the international application or provides a defective sequence listing, the United States, acting as International Searching Authority (ISA/US) or as International Preliminary Examining Authority (IPEA/US), must issue an invitation to the applicant to provide the missing or corrected sequence listing. This additional process creates a delay in the issuance of the International Search Report (ISR) or International Preliminary Report on Patentability (Chapter II). The most recent data shows that the ISA/US issues ISRs within 16 months of the priority date for 75 percent of all international applications searched by the ISA/US. However, when the ISA/US issues an invitation to provide a sequence listing, the ISA/US issues ISRs within 16 months in only 28 percent of those international applications. The time limit for issuance of the ISR under Patent Cooperation Treaty (PCT) Rule 42 in most circumstances is 16 months from the priority date. This new fee will help compensate the Office for the extra work associated with issuing the invitation and handling the response, while better positioning the Office to meet applicable treaty timeframes. The fee is similar in size and scope to fees charged by other international IP offices.

Additional examples of fee schedule design changes that facilitate effective and efficient administration of the patent system include the change to the Information Disclosure Statement (IDS) and Certificate of Correction fee rates. The proposed IDS adjustment optimally sets the fee to encourage early submission of an IDS when possible. The certification of correction fee rate adjustment would encourage applicants to submit accurate information initially, while at the same time not increasing the rate too much above unit cost recovery to discourage disclosure of needed corrections when an error has been identified.

Finally, under this alternative, the Office is proposing several adjustments to enhance the clarity of the fee schedule. As thoroughly detailed in the NPRM, the Office proposes changes to both Patent Enrollment Fees and Patent Service Fees that would result in increased clarity of the fee schedule. In some cases, the Office is creating new fee codes where currently a single fee code covers multiple services or products. In other cases the Office is discontinuing fee codes that are no longer being utilized. Additionally, the Office is adjusting the fee code descriptions in some cases. The Office is also proposing to establish set fee rates for several services that are currently charged “at cost.” All of these changes are proposed to provide increased clarity to stakeholders regarding the products and services the USPTO offers and their associated fee rates.

1. ***Offering new patent prosecution options:*** The Office proposes to establish a new fee for smaller, streamlined reexamination filings. The streamlined filings would reduce the cost to the USPTO, allowing the Office to pass on the cost savings to applicants. Providing lower fees for smaller requests serves the public interest by making the reexamination process more accessible as a post-grant proceeding. This benefits applicants and furthers key policy factors of fostering innovation and offering patent prosecution options for applicants.

***Summary of Fee Design Benefits for Alternative 1:*** Alternative 1 captures the most fee schedule design benefits of any of the alternatives examined. The Office designed the fee schedule around the key fee setting policy factors referenced throughout this document and the NPRM. As demonstrated by the continuation of a front-end/back-end subsidy structure and the new and revised fees discussed above, this alternative designs the fee structure in a way to achieve the Office’s proposed rulemaking and operational strategies and goals and to benefit patent stakeholders.

***Summary of Secure Sufficient Aggregate Revenue to Cover Aggregate Costs for Alternative 1:*** The proposed fee schedule secures sufficient aggregate patent revenue to allow for continued efforts related to enhancing patent quality and optimizing patent application backlog and pendency, improving the USPTO IT infrastructure, and gradually building a viable operating reserve.

* 1. Alternative 2 – Unit Cost Recovery

Table 4-5

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total** |
| **Budgetary Requirements** | $2,930 | $3,114 | $3,157 | $3,208 | $3,272 | $15,681 |
| Alternative 2: Unit Cost Recovery – Fee Revenue | $2,971 | $3,210 | $3,277 | $3,432 | $3,599 | $16,489 |
| Other Income | $18 | $18 | $18 | $18 | $18 | $90 |
| **Aggregate Revenue** | $2,989 | $3,228 | $3,295 | $3,450 | $3,617 | $16,579 |
| Operating Reserve | $369 | $483 | $621 | $862 | $1,207 | - |
| Optimal Operating Reserve | $732 | $778 | $789 | $802 | $818 | - |
| **Operating Reserve Surplus (Deficit)** | ($363) | ($295) | ($168) | $60 | $389 | - |

* + 1. Description of Alternative 2

Alternative 2 is a fee structure that would set most individual large entity fees at the historical cost of performing the activities related to the particular service in FY 2015. This alternative continues existing and offers new small and micro entity discounts where eligible under AIA authority. It is important to note that the Alternative 2 fee rates for FY 2017 through FY 2021 are based on FY 2015 historical costs. The Office recognizes that this approach does not account for inflationary factors that could likely increase the costs of certain patent services and necessitate higher fees in the out-years. However, the Office contends that the FY 2015 data is the best unit cost data available to inform this analysis.

Similar to Alternatives 1 and 3, the aggregate revenue would be sufficient to cover the aggregate cost of patent operations and support the Office’s strategic priorities to optimize the quality and timeliness of patent processing and implement a sustainable fund for operations (by establishing a three month patent operating reserve). It is important for the Office to balance accomplishing both priorities together so that once it achieves the pendency goals, it has sufficient resources to maintain them.

As shown in Table 4-6, the fee schedule in Alternative 2 includes the highest combined filing, search, and examination fees and the lowest maintenance fees of any of the alternatives. As shown in Table 4-6, the cost of securing and maintaining a patent through a typical prosecution sequence for its full 20-year term decreases by $4,500 (27.5 percent) for Alternative 2. Assuming a three percent discount rate, the net present value of investing in a patent for this alternative is $9,972, compared to a net present value of $12,157 for the Baseline. For a unit cost recovery fee schedule, in particular, the difference in front-end fees is most telling, $6,440 ($6,131 net present value assuming three percent discounting) under this alternative’s fee schedule instead of $2,800 ($2,652 net present value assuming three percent discounting) under the baseline fee schedule.

**Table 4-6**

|  | **Patent Fee Rates** |  |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 2 Fee Rate** |
| Filing | $280 | $280 |
| Search | $600 | $1,780 |
| Examination | $720 | $2,200 |
| First RCE | $1,200 | $2,180 |
| **Front-End Fees** | **$2,800** | **$6,440** |
| Issue | $960 | $320 |
| 1st Stage Maintenance | $1,600 | $860 |
| 2nd Stage Maintenance | $3,600 | $1,700 |
| 3rd Stage Maintenance | $7,400 | $2,540 |
| **Back-End Fees** | **$13,560** | **$5,420** |
| **Total Fees** | **$16,360** | **$11,860** |

This alternative could present significant barriers to those seeking patent protection, because front-end fees would increase significantly for all applicants, even with small and micro entity fee reductions. Further, this alternative is counter to the Office’s general philosophy to charge applicants and holders lower fees when they have less information about the relative value of their innovation. During the initial application stages, applicants often are not sure of the value of their innovation, thus lower front-end fees serve to encourage innovation, even though these front-end services are more costly to the Office. At the back-end, i.e., for maintenance fee payments, applicants know more information related to the commercial value of their innovation and can therefore make more informed decisions regarding maintenance fee payments.

Setting fees at cost recovery is a common practice in the Federal Government. OMB Circular A-25: *User Charges* provides guidance stating that user charges (fees) should be sufficient to recover the full cost to the Federal Government of providing the service, resource, or good when the government is acting in its capacity as sovereign. However, there are several complexities in achieving individual fee cost recovery for the patent fee schedule. The most significant is the AIA requirement to provide a 50 percent discount on fees to small entities and a 75 percent discount on fees to micro entities. The Office looked at several options for designing this alternative. For example, the Office considered increasing the fee paid by large entities to recover the lost revenue associated with the 50 and 75 percent discounts. However, this would seem to be unduly punitive to large entities. Instead, the Office decided to adjust the large entity fee so that it reflects the full cost of the service provided, and recover lost revenue from small and micro entity discounts through other fees. However, because most fees are set at individual large fee cost recovery, there are not many remaining fees available to provide subsidies to recover the revenue shortfall. There are some fees for which cost data is not available, for these fees the Office chose to retain the current fee rates in this alternative.

A final complexity is that the Office did not receive revenue equal to the full cost of examining the applications currently comprising the backlog when those applications were filed (application fees are set below the cost of the Office). Therefore, if the Office were to implement this alternative, the Office would need to address this funding gap as well. (*See* section 1.3 describing how the Office operated prior to fee setting authority under the AIA).

Given these complexities, the Office requires more revenue to sustain operations than a simple cost recovery alternative would generate. Therefore, the Office adjusted maintenance fee rates to ensure that the aggregate costs laid out in the FY 2017 Budget were met. As a result, this alternative includes maintenance fees set at approximately half of the amount of current maintenance fee rates.

The Office does not attempt to estimate the elasticity impacts to application filings and renewal rates (e.g., filing, search, and examination, maintenance fees) due to a lack of historical data that could inform such a significant shift in the Office’s fee setting methodology. However, the Office theorizes that the high costs of entry into the patent system could lead to a decrease in the incentives to invest in innovative activities among all entities, and especially for small and micro entities. There is a strong possibility that funds previously used for issue and maintenance fee payments could offset the higher front-end costs for some users, but the front-end costs could prove insurmountable for other innovators. Again, the Office lacks historical data to estimate this cross price elasticity.

The Office also recognizes that the lower maintenance fee rates would likely lead to increased renewal rates. Patents that are maintained beyond their useful life could weaken the IP system by slowing the rate of public accessibility and follow-on inventions, which is contrary to the Office’s policy factor of fostering innovation.

Additional information about the fee cost calculation methodology, including the cost components related to respective fees, is available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues> in the document titled “USPTO Setting and Adjusting Patent Fees during FY 2017 – Activity Based Information and Patent Fee Unit Expense Methodology.” A summary of the unit costs associated with the major fees is presented in Table 4-7. This unit cost information was used to inform the large entity fee rates used in this alternative.

Table 4‑7

| **Fee Description** | **Unit Cost** | | |
| --- | --- | --- | --- |
| **FY 2013** | **FY 2014** | **FY 2015** |
|
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $262 | $257 | $277 |
| Basic Filing Fee – Utility (Electronic Filing) | $262 | $257 | $277 |
| Basic Filing Fee – Design | $262 | $257 | $277 |
| Basic Filing Fee – Design (CPA) | $707 | $772 | $884 |
| Basic Filing Fee – Plant | $262 | $257 | $277 |
| Provisional Application Filing Fee | $152 | $144 | $154 |
| Basic Filing Fee – Reissue | $260 | $256 | $277 |
| Basic Filing Fee – Reissue (CPA) | $707 | $772 | $884 |
| Utility Search Fee | $1,063 | $2,020 | $1,773 |
| Design Search Fee | $354 | $425 | $397 |
| Plant Search Fee | $1,603 | $2,020 | $1,773 |
| Reissue Search Fee | $1,603 | $2,020 | $1,773 |
| Utility Examination Fee | $1,981 | $2,195 | $2,205 |
| Design Examination Fee | $560 | $566 | $608 |
| Plant Examination Fee | $1,981 | $2,195 | $2,205 |
| Reissue Examination Fee | $1,981 | $2,195 | $2,205 |
| Utility Issue Fee | $270 | $280 | $314 |
| Reissue Issue Fee | $270 | $280 | $314 |
| Design Issue Fee | $270 | $280 | $314 |
| Plant Issue Fee | $270 | $280 | $314 |
| Petition for the Delayed Payment of the Fee for Maintaining a Patent in Force | $115 | $113 | $121 |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,864 | $1,776 | $2,187 |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,322 | $1,310 | $1,540 |
| Other Publication Processing Fee | $39 | $27 | $31 |
| Request for Voluntary Publication or Republication | $115 | $113 | $121 |
| Request for Expedited Examination of a Design Application | $115 | $113 | $121 |
| Processing Fee for Provisional Applications | $39 | $27 | $31 |
| Filing a Submission After Final Rejection (*see* 37 CFR 1.129(a)) | $1,864 | $1,776 | $2,187 |
| For Each Additional Invention to be Examined (*see* 37 CFR 1.129(b)) | $1,864 | $1,776 | $2,187 |
| Certificate of Correction | $69 | $74 | $93 |
| Request for *Ex Parte* Reexamination | $26,046 | $28,503 | $23,288 |
| Request for Supplemental Examination | $5,490 | $5,445 | $6,224 |
| Reexamination Ordered as a Result of Supplemental Examination | $26,338 | $29,140 | $22,347 |
| Petitions to the Chief Administrative Patent Judge Under 37 CFR 41.3 | n/a | $4,762 | $4,596 |
| Notice of Appeal | n/a | $33 | $45 |
| Filing a Brief in Support of an Appeal in an *Inter Partes* Reexamination Proceeding | n/a | $16,545 | $20,874 |
| Request for Oral Hearing | n/a | $1,657 | $1,483 |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | n/a | $4,736 | $4,815 |
| *Inter Partes* Review Request Fee – Up to 20 Claims | n/a | $20,467 | $22,165 |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | n/a | $15,263 | $12,674 |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | n/a | $23,589 | $16,213 |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | n/a | $34,721 | $23,060 |
| Petition for a Derivation Proceeding | n/a | $24,193 | $51,949 |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(f) (Group I) | $307 | $211 | $244 |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(g) (Group II) | $307 | $211 | $244 |
| Petitions Requiring the Petition Fee Set Forth in 37 CFR 1.17(h) (Group III) | $115 | $113 | $121 |
| Petition for Revival of an Abandoned Application for a Patent, for the Delayed Payment of the Fee for Issuing Each Patent, or for the Delayed Response by the Patent Owner in any Reexamination Proceeding | $307 | $211 | $244 |
| Petition for the Delayed Submission of a Priority or Benefit Claim, or to Restore the Right of Priority or Benefit | $307 | $211 | $244 |
| Filing an Application for Patent Term Adjustment | $115 | $113 | $121 |
| Request for Reinstatement of Term Reduced | $115 | $113 | $121 |
| Extension of Term of Patent | $115 | $113 | $121 |
| Initial Application for Interim Extension (*see* 37 CFR 1.790) | $115 | $113 | $121 |
| Subsequent Application for Interim Extension (*see* 37 CFR 1.790) | $115 | $113 | $121 |
| Basic National Stage Fee | $338 | $350 | $343 |
| National Stage Search Fee – U.S. Was the ISA | $272 | $300 | $324 |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $1,603 | $2,020 | $1,773 |
| National Stage Search Fee – All Other Situations | $1,603 | $2,020 | $1,773 |
| National Stage Examination Fee – All Other Situations | $1,981 | $2,195 | $2,205 |
| Transmittal Fee | $328 | $310 | $302 |
| Search Fee – Regardless of Whether There is a Corresponding Application (*see* 35 U.S.C. 361(d) and PCT Rule 16) | $1,979 | $1,839 | $1,911 |
| Supplemental Search Fee When Required, per Additional Invention | $1,979 | $1,839 | $1,911 |
| Transmitting Application to Intl. Bureau to Act as Receiving Office | $11 | $5 | $5 |
| Preliminary Examination Fee – U.S. Was the ISA | $824 | $827 | $866 |
| Preliminary Examination Fee – U.S. Was Not the ISA | $824 | $827 | $866 |
| Supplemental Examination Fee per Additional Invention | $824 | $827 | $866 |
| Application Fee (Non-Refundable) | n/a | $194 | $225 |
| Registration to Practice or Grant of Limited Recognition Under § 11.9(b) or (c) | n/a | $427 | $493 |
| Certificate of Good Standing as an Attorney or Agent | n/a | $34 | $39 |
| Certificate of Good Standing as an Attorney or Agent, Suitable for Framing | n/a | $42 | $49 |
| For Test Administration by Commercial Entity | n/a | $410 | $476 |
| For Test Administration by the USPTO | n/a | $584 | $676 |
| Review of Decision by the Director of Enrollment and Discipline Under § 11.2(c) | n/a | $1,769 | $2,044 |
| Review of Decision of the Director of Enrollment and Discipline Under § 11.2(d) | n/a | $1,581 | $1,827 |
| Application Fee for Person Disciplined, Convicted of a Felony or Certain Misdemeanors Under § 11.7(h) | n/a | $2,845 | $3,297 |
| Administrative Reinstatement Fee | n/a | $813 | $940 |
| Delinquency Fee | n/a | $150 | $173 |
| Unspecified Other Services, Excluding Labor | n/a | $65 | $75 |
| Registration to Practice for Change of Practitioner Type | n/a | $69 | $80 |
| Registration Examination Review Session (NEW) | n/a | $445 | $515 |

Although this alternative provides sufficient aggregate revenue to cover aggregate costs, Alternative 2 reverses the policy of fostering innovationvia lower front-end fees. Under this alternative, the increase in front-end fees is the greatest of any of the alternatives considered.

Table 4-8 presents the major fee changes between the Baseline and Alternative 2. A complete list of fee changes for Alternative 2 is available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues> in the document titled, “IRFA Fee Tables.”

Table 4‑8

| **Alternative 2 – Unit Cost Recovery Current and Proposed Fees** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $280 | $140 | $70 | $280 | $140 | $70 |
| **0%** | **0%** | **0%** |
| Basic Filing Fee – Utility (Electronic Filing) | $280 | $70 | $70 | $280 | $70 | $70 |
| **0%** | **0%** | **0%** |
| Basic Filing Fee – Design | $180 | $90 | $45 | $280 | $140 | $70 |
| **56%** | **56%** | **56%** |
| Provisional Application Filing Fee | $260 | $130 | $65 | $160 | $80 | $40 |
| **-38%** | **-38%** | **-38%** |
| Basic Filing Fee – Reissue | $280 | $140 | $70 | $880 | $440 | $220 |
| **214%** | **214%** | **214%** |
| Utility Search Fee | $600 | $300 | $150 | $1,780 | $890 | $445 |
| **197%** | **197%** | **197%** |
| Design Search Fee | $120 | $60 | $30 | $400 | $200 | $100 |
| **233%** | **233%** | **233%** |
| Utility Examination Fee | $720 | $360 | $180 | $2,200 | $1,100 | $550 |
| **206%** | **206%** | **206%** |
| Design Examination Fee | $460 | $230 | $115 | $600 | $300 | $150 |
| **30%** | **30%** | **30%** |
| Utility Issue Fee | $960 | $480 | $240 | $320 | $160 | $80 |
| **-67%** | **-67%** | **-67%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,200 | $600 | $300 | $2,180 | $1,090 | $545 |
| **82%** | **82%** | **82%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,700 | $850 | $425 | $1,540 | $770 | $385 |
| **-9%** | **-9%** | **-9%** |
| Maintenance Fee Due at 3.5 years | $1,600 | $800 | $400 | $860 | $430 | $215 |
| **-46%** | **-46%** | **-46%** |
| Maintenance Fee Due at 7.5 years | $3,600 | $1,800 | $900 | $1,700 | $850 | $425 |
| **-53%** | **-53%** | **-53%** |
| Maintenance Fee Due at 11.5 years | $7,400 | $3,700 | $1,850 | $2,540 | $1,270 | $635 |
| **-66%** | **-66%** | **-66%** |
| Notice of Appeal | $800 | $400 | $200 | $40 | $20 | $10 |
| **-95%** | **-95%** | **-95%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,000 | $1,000 | $500 | $4,820 | $2,410 | $1,205 |
| **141%** | **141%** | **141%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $9,000 | | | $22,160 | | |
| **146%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $14,000 | | | $12,680 | | |
| **-9%** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $12,000 | | | $16,220 | | |
| **35%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $18,000 | | | $23,060 | | |
| **28%** | | |
| Petition for Revival of an Abandoned Application for a Patent, for the Delayed Payment of the Fee for Issuing Each Patent, or for the Delayed Response by the Patent Owner in any Reexamination Proceeding | $1,700 | $850 | $850 | $240 | $120 | $60 |
| **-86%** | **-86%** | **-93%** |
| Petition for the Delayed Submission of a Priority or Benefit Claim, or to Restore the Right of Priority or Benefit | $1,700 | $850 | $850 | $240 | $120 | $60 |
| **-86%** | **-86%** | **-93%** |
| Petition to Excuse Applicant's Failure to Act Within Prescribed Time Limits in an International Design Application | $1,700 | $850 | $850 | $1,700 | $850 | $425 |
| **0%** | **0%** | **-50%** |
| Basic National Stage Fee | $280 | $140 | $70 | $340 | $170 | $85 |
| **21%** | **21%** | **21%** |
| National Stage Search Fee – U.S. Was the ISA | $120 | $60 | $30 | $320 | $160 | $80 |
| **167%** | **167%** | **167%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $480 | $240 | $120 | $1,780 | $890 | $445 |
| **271%** | **271%** | **271%** |
| National Stage Search Fee – All Other Situations | $600 | $300 | $150 | $1,780 | $890 | $445 |
| **197%** | **197%** | **197%** |
| National Stage Examination Fee – All Other Situations | $720 | $360 | $180 | $2,200 | $1,100 | $550 |
| **206%** | **206%** | **206%** |
| Application Fee (Non-Refundable) | $40 | | | $220 | | |
| **450%** | | |
| Registration to Practice or Grant of Limited Recognition Under § 11.9(b) or (c) | $100 | | | $500 | | |
| **400%** | | |
| Grant of Limited Recognition Under § 11.9(b) or (c) | $100 | | | $500 | | |
| **400%** | | |
| Review of Decision by the Director of Enrollment and Discipline Under § 11.2(c) | $130 | | | $2,040 | | |
| **1469%** | | |
| Review of Decision of the Director of Enrollment and Discipline Under § 11.2(d) | $130 | | | $1,820 | | |
| **1300%** | | |
| Administrative Reinstatement Fee | $100 | | | $940 | | |
| **840%** | | |

* + 1. Costs of Alternative 2 – Unit Cost Recovery

Costs for Alternative 2 include aggregate increase in user fee payments and fee schedule design costs. Individual fee amounts and their relationship to other fees in the fee schedule affect the fee schedule design costs.

In this alternative aggregate revenue will increase over the Baseline. This means that users will be paying increased fees, and this is considered a cost for this analysis. It is estimated that this proposal would result in an additional $712 million in additional user fee payments over the five year time horizon as compared to the Baseline.

The following discussion of the fee schedule design evaluates how well the fee adjustments reflect the key policy factors, namely fostering innovation, facilitating effective administration of the patent system, and offering patent prosecution options for applicants. This discussion only includes fees for which the Office can draw reasonable conclusions about the costs; therefore, the discussion that follows does not address all of the fees included in Table 4-8. A complete list of fees for Alternative 2 can be found on the USPTO Web site, available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues>, in the document titled, “IRFA Fee Tables.”

1. ***Utility—Basic Filing, Search, and Examination:*** Alternative 2 offers the most significant change to the current fee schedule of any of the alternatives; it reverses the Office’s long-established policy consideration to set front-end fees below cost in order to foster innovation. Setting the basic utility patent application fees (i.e., filing, search, and examination) at cost ($4,260 for a large entity) would create a barrier for entry into the patent system. For most patent applicants—whether large, small, or micro entities—this fee amount would be a cost to patenting that could cause some patent applicants to completely forgo seeking patent protection. As a result, this alternative has the largest reduction in public disclosure of information of all the alternatives examined. The potential costs to society from reduced innovation include less or inefficient R&D that would not as effectively support economic growth and the creation of high-paying jobs—two tenets of the *Strategy for American Innovation*, as mentioned earlier.
2. ***Request for Continued Examination (RCE):*** An RCE is sometimes used to resolve prosecution issues during examination. Setting the RCE fees at cost, $2,180 for the first and $1,540 for 2nd or subsequent, could limit access to this patent service. Given the full cost of the basic utility application fees (*see* above), this higher RCE fee might have a significant adverse impact upon applicants, especially those with the fewest resources (e.g., small and micro entities). Setting all RCE fees at cost recovery is contrary to the fee setting policy factors of fostering innovation and offering patent prosecution options for applicants, because they would increase costs to applicants to prosecute a patent application at a time when an applicant has less information about the value of their invention.
3. ***Appeal Fees:*** Setting the total large entity appeal fees at cost to be paid upon filing a notice of appeal and the cost to forward it to the Board ($4,860) would create a barrier to using this service and would not foster innovation.
4. **Ex Parte *Reexamination, Supplemental Examination,*** **Inter Partes *Review, and Post-Grant Review:*** Supplemental examination, *inter partes* review, and post-grant review are intended to offer options for persons wishing to dispute or preempt disputes concerning IP rights. The services discussed in this section are highly specialized, and the Office’s costs for performing them are significant. Setting these fees at full cost recovery reduces access to these proceedings, which works against the policy factor of providing options for post-prosecution actions.
5. ***Publication Fee for Early, Voluntary, or Normal Publication (PG Pub) & Utility Issue Fee:*** As mentioned earlier, Alternative 2 does not provide for a subsidy of front-end application fees. Instead, setting the front-end application fees (i.e., filing, search, and examination) (discussed earlier) at cost does not require these back-end fees to be set above cost (i.e., the PG Pub/Issue fee would decrease to $320 from $960). This fee design structure does not support the policy factor of fostering innovation.
6. ***Maintenance Fee – 1st, 2nd, and 3rd Stages:*** The cost for processing maintenance fee payments is minimal. In order to cover aggregate costs with aggregate revenue, maintenance fee rates would need to be set at $860 (1st stage), $1,700 (2nd Stage), and $2,540 (3rd Stage) for large entities. As shown in Table 4-8, these fees are less than the Baseline maintenance fees. Setting maintenance fees too low could serve as motivation for maintaining low-value patents for longer than is beneficial to society.

***Summary of Fee Schedule Design Costs for Alternative 2***

In summary, after analyzing the fee schedule design costs, the Office concludes that while Alternative 2 represents the standard approach to fee setting in the Federal Government, this approach does not support the Office’s proposed rulemaking strategies and goals, especially the important policy factors that go into the Office’s individual fee setting strategy. The largest fee schedule design cost is the loss of a front-end subsidy designed to foster innovation, but the impacts of much costlier patent prosecution options (e.g., RCEs and appeals) are also noticeable. Overall, Alternative 2 would not offer adequate benefits and would produce appreciable costs, especially when compared to the proposed fee schedule (Alternative 1).

* + 1. Benefits of Alternative 2 – Securing Aggregate Revenue to Cover Aggregate Costs

The Office identified one benefit under Alternative 2—securing aggregate revenue to cover aggregate costs. This alternative generates enough aggregate patent revenue to meet the Office’s strategic priority to implement a sustainable funding model for operations (by establishing a three month patent operating reserve). While recovering aggregate patent costs is classified as a benefit in the analysis, the Office considers this alternative to be wholly insufficient at fulfilling three of the four fee setting policy factors (foster innovation, set fees to facilitate the effective administration of the patent system, and offer application processing options for applicants).

* 1. Alternative 3 – Across the Board Adjustment
     1. Description of Alternative 3

**Table 4-9**

| **Patent Costs and Revenue by Alternative** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions)** | | | | | | |
|  | **FY 2017** | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **Total** |
| **Budgetary Requirements** | $2,930 | $3,114 | $3,157 | $3,208 | $3,272 | $15,681 |
| Alternative 3: Across the Board Adjustment – Fee Revenue | $2,947 | $3,267 | $3,267 | $3,414 | $3,602 | $16,497 |
| Other Income | $18 | $18 | $18 | $18 | $18 | $90 |
| **Aggregate Revenue** | $2,965 | $3,285 | $3,285 | $3,432 | $3,620 | $16,587 |
| Operating Reserve | $345 | $516 | $644 | $867 | $1,215 |  |
| Optimal Operating Reserve | $732 | $778 | $789 | $802 | $818 |  |
| **Operating Reserve Surplus (Deficit)** | ($387) | ($262) | ($145) | $65 | $397 |  |

Prior to the enactment of the AIA, the Office used its statutory authority to adjust statutory fees annually according to changes in the CPI, which is a commonly used measure of inflation. Building on this former approach, Alternative 3 uses the Office’s section 10 fee setting authority to apply an inflationary adjustment of 5.0 percent to the Baseline in order to achieve an aggregate patent revenue roughly equivalent to Alternatives 1 and 2 and to cover the aggregate costs laid out in the FY 2017 Budget.

As shown in Table 4-9, transitioning to the Alternative 3 fee schedule in FY 2017 would provide the USPTO with a 2.4 percent increase in fee collections from the Baseline fee collection levels. Once fully transitioned to the new fee levels, however, the Office estimates that FY 2018 fee collections under Alternative 3 would exceed FY 2018 Baseline fee collections by approximately 5.0 percent. The aggregate revenue would be sufficient to cover the aggregate cost of patent operations and provides enough to meet the Office’s strategic priorities to optimize the quality and timeliness of patent processing and to implement a sustainable funding model for operations (by establishing a three month patent operating reserve). It is important for the Office to balance accomplishing both priorities together so that once it achieves the pendency goals, it has sufficient resources to maintain them. Alternative 3 builds the three month patent operating reserve by the beginning of FY 2021.

As shown in Table 4-10, Alternative 3 retains the same fee relationships and subsidization policies as the Baseline. The cost of securing and maintaining a patent through a typical prosecution sequence for its full 20-year term increases by $840 (5.1 percent) for Alternative 3. Assuming a three percent discount rate, the net present value of investing in a patent for Alternative 3 is $12,782, compared to a net present value of $12,157 for the Baseline.

**Table 4-10**

| **Patent Fee Rates** | | |
| --- | --- | --- |
|  | **Baseline Fee Rate** | **Alternative 3 Fee Rate** |
| Filing | $280 | $300 |
| Search | $600 | $640 |
| Examination | $720 | $760 |
| First RCE | $1,200 | $1,260 |
| **Front-End Fees** | **$2,800** | **$2,960** |
| Issue | $960 | $1,000 |
| 1st Stage Maintenance | $1,600 | $1,680 |
| 2nd Stage Maintenance | $3,600 | $3,780 |
| 3rd Stage Maintenance | $7,400 | $7,780 |
| **Back-End Fees** | **$13,560** | **$14,240** |
| **Total Fees** | **$16,360** | **$17,200** |

For example, this alternative maintains the status quo ratio of front-end and back-end fees, given that all fees would be adjusted by the same escalation factor, thereby fostering innovation and allowing applicants to gain access to the patent system through fees set below cost while patent holders pay issue and maintenance fees above cost to subsidize the reduced front-end fees. Alternative 3 nevertheless fails to implement policy factors and deliver benefits beyond what exists in the Baseline fee schedule (e.g., no fee adjustments to offer new patent prosecution options or facilitate more effective administration of the patent system).

Table 4-11 presents the major fee changes between the Baseline and Alternative 3. A complete list of fee changes for Alternative 3 is available at <http://www.uspto.gov/patent/laws-and-regulations/america-invents-act-aia/fees-and-budgetary-issues> in the document titled, “IRFA Fee Tables.”

**Table 4‑11**

| **Alternative 3 – Across the Board Increase Current and Proposed Fees** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **Description** | **Current Fees** | | | **Proposed Fees** | | |
| **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** | **Large Entity Fee** | **Small Entity Fee** | **Micro Entity Fee** |
|
|  |
|
| Basic Filing fee – Utility (Paper Filing – Also Requires Non-Electronic Filing Fee under 1.16(t)) | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Basic Filing Fee – Utility (Electronic Filing) | n/a | $70 | n/a |  | $75 |  |
|  | **7%** |  |
| Basic Filing Fee – Design | $180 | $90 | $45 | $180 | $90 | $45 |
| **0%** | **0%** | **0%** |
| Basic Filing Fee – Plant | $180 | $90 | $45 | $180 | $90 | $45 |
| **0%** | **0%** | **0%** |
| Provisional Application Filing Fee | $260 | $130 | $65 | $280 | $140 | $10 |
| **8%** | **8%** | **8%** |
| Basic Filing Fee – Reissue | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| Each Independent Claim in Excess of Three | $420 | $210 | $105 | $440 | $220 | $110 |
| **5%** | **5%** | **5%** |
| Each Claim in Excess of 20 | $80 | $40 | $20 | $80 | $40 | $20 |
| **0%** | **0%** | **0%** |
| Multiple Dependent Claim | $780 | $390 | $195 | $820 | $410 | $205 |
| **5%** | **5%** | **5%** |
| Utility Search Fee | $600 | $300 | $150 | $640 | $320 | $160 |
| **7%** | **7%** | **7%** |
| Design Search Fee | $120 | $60 | $30 | $120 | $60 | $30 |
| **0%** | **0%** | **0%** |
| Utility Examination Fee | $720 | $360 | $180 | $760 | $380 | $190 |
| **6%** | **6%** | **6%** |
| Design Examination Fee | $460 | $230 | $115 | $480 | $240 | $120 |
| **4%** | **4%** | **4%** |
| Utility Issue Fee | $960 | $480 | $240 | $1,000 | $500 | $250 |
| **4%** | **4%** | **4%** |
| Design Issue Fee | $560 | $280 | $140 | $580 | $290 | $145 |
| **4%** | **4%** | **4%** |
| Plant Issue Fee | $760 | $380 | $190 | $800 | $400 | $200 |
| **5%** | **5%** | **5%** |
| Request for Continued Examination (RCE) – 1st Request (*see* 37 CFR 1.114) | $1,200 | $600 | $300 | $1,260  **5%** | $630  **5%** | $315  **5%** |
| Request for Continued Examination (RCE) – 2nd and Subsequent Request (*see* 37 CFR 1.114) | $1,700 | $850 | $425 | $1,780 | $890 | $445 |
| **5%** | **5%** | **5%** |
| Maintenance Fee Due at 3.5 years | $1,600 | $800 | $400 | $1,680 | $840 | $420 |
| **5%** | **5%** | **5%** |
| Maintenance Fee Due at 7.5 years | $3,600 | $1,800 | $900 | $3,780 | $1,890 | $945 |
| **5%** | **5%** | **5%** |
| Maintenance Fee Due at 11.5 years | $7,400 | $3,700 | $1,850 | $7,780 | $3,890 | $1,945 |
| **5%** | **5%** | **5%** |
| Notice of Appeal | $800 | $400 | $200 | $840 | $420 | $210 |
| **5%** | **5%** | **5%** |
| Forwarding an Appeal in an Application or *Ex Parte* Reexamination Proceeding to the Board | $2,000 | $1,000 | $500 | $2,100 | $1,050 | $525 |
| **5%** | **5%** | **5%** |
| *Inter Partes* Review Request Fee – Up to 20 Claims | $9,000 | | | $9,450 | | |
| **5%** | | |
| *Inter Partes* Review Post-Institution Fee – Up to 15 Claims | $14,000 | | | $14,700 | | |
| **5%** | | |
| Post-Grant or Covered Business Method Review Request Fee – Up to 20 Claims | $12,000 | | | $12,600 | | |
| **5%** | | |
| Post-Grant or Covered Business Method Review Post-Institution Fee – Up to 15 Claims | $18,000 | | | $18,900 | | |
| **5%** | | |
| Basic National Stage Fee | $280 | $140 | $70 | $300 | $150 | $75 |
| **7%** | **7%** | **7%** |
| National Stage Search Fee – U.S. Was the ISA | $120 | $60 | $30 | $120 | $60 | $30 |
| **0%** | **0%** | **0%** |
| National Stage Search Fee – Search Report Prepared and Provided to USPTO | $480 | $240 | $120 | $500 | $250 | $125 |
| **4%** | **4%** | **4%** |
| National Stage Search Fee – All Other Situations | $600 | $300 | $150 | $640 | $320 | $160 |
| **7%** | **7%** | **7%** |
| National Stage Examination Fee – All Other Situations | $720 | $360 | $180 | $760 | $380 | $190 |
| **6%** | **6%** | **6%** |
| National Stage – Each Independent Claim in Excess of Three | $420 | $210 | $105 | $440 | $220 | $110 |
| **5%** | **5%** | **5%** |
| Enrollment – Application Fee (Non-Refundable) | $40 | | | $40 | | |
| **0%** | | |
| Registration to Practice or Grant of Limited Recognition Under § 11.9(b) or (c) | $100 | | | $105 | | |
| **5%** | | |

### Costs for Alternative 3: Aggregate Increase in User Fee Payments

For Alternative 3, the Office identified one cost; the aggregate increase in user fee payments. In this alternative aggregate revenue will increase over the Baseline. This means that users would pay increased fees, which is considered a cost for this analysis. It is estimated that this proposal would result in an additional $720 million in additional user fee payments over the five year time horizon as compared to the Baseline.

### Benefits of Alternative 3 – Across the Board Adjustment

When compared to the Baseline, one benefit is produced by Alternative 3—securing aggregate revenue to cover aggregate costs. The benefit is significant, as it would allow for continued efforts related to enhancing patent quality and optimizing patent application backlog and pendency, improving the USPTO IT infrastructure, and gradually building an optimal operating reserve balance. Specifically, the Office estimates that the operating reserve will meet its minimum acceptable balance ($300 million) in FY 2017 and gradually build until it reaches the optimal target (three months of patent operating expenses) by the beginning of FY 2021.

# ACHIEVEMENT OF THE PROPOSED RULEMAKING STRATEGIES AND GOALS

* 1. Achievement of the Proposed Rulemaking Strategies and Goals

Given the economic significance of the proposed rulemaking to set and adjust patent fees in accordance with section 10 of the AIA, the Office conducted this RIA, which analyzed four alternatives for how well they aligned to the Office’s rulemaking strategies and goals. As noted throughout this document, the rulemaking strategies and goals are comprised of strategic priorities from the Strategic Plan and the Office’s fee setting policy factors. Based on the costs and benefits identified for this RIA, namely (1) fee schedule design, (2) securing aggregate revenue to cover aggregate cost, and (3) aggregate increase in user fee payments, Alternative 1 offers the highest net benefits. With a fee schedule that maintains the existing front-end/back-end balance, while offering targeted fee schedule design changes and securing the aggregate revenue needed to achieve the strategic priorities, the benefits of the proposed alternative clearly outweigh those of the other alternatives considered.

The way the Office chose alternatives was purposeful. As stated earlier, Alternative 2 represents the standard methodology that federal agencies use to set user fees per OMB A‑25, i.e., agencies should set fees to recover the individual unit cost of the good or service provided. In the case of the USPTO, where front-end services are much costlier than back-end services, a unit cost methodology does not align with the Office’s purposeful subsidization of entry fees as a means to foster innovation. Similarly, many stakeholders would agree that if the Office seeks more revenue than the Baseline fee schedule is projected to provide, an acceptable and logical solution would be an across the board fee increase that would secure the required revenue. Given that the Office’s prior fee setting authority revolved around CPI adjustments to the existing fee schedule, there is a precedent for such increases. However, this alternative does not take full advantage of the AIA section 10 flexibilities that allow the Office to readjust relationships between fees in ways that both benefit applicants (e.g., additional processing options) and the Office (e.g., discouraging low-value, high-cost services). In these ways, Alternative 1 again offers more net benefits and allows the Office to provide greater value to stakeholders.

* 1. Closing

In closing, unlike traditional regulatory actions that seek to change behavior, redistribute costs and benefits to different stakeholder groups, or both, this RIA is essentially an analysis of the costs and benefits associated with increases to the fees transferred from patent stakeholders to the Office. Given that all of the alternatives considered beyond the Baseline (Alternative 4) provide the necessary revenue to maintain progress on operational and strategic priorities, the differentiator between them is how their fee schedule was designed to result in higher transfers. Alternative 1 is not fundamentally different from Alternative 3 or the Baseline in terms of applying the Office’s fee setting policy factors, but the Office recognizes additional benefits from the prudent targeting of fee adjustments.

# APPENDIX A: Acronyms

ABC – Activity-based costing

ABI – Activity-based information

AIA – Leahy-Smith American Invents Act

CBO – Congressional Budget Office

CPI-U – Consumer Price Index for All Urban Consumers, as determined by the Secretary of Labor

FY – Fiscal Year

IDS – Information Disclosure Statement

IP – Intellectual Property

IPEA/US – International Preliminary Examining Authority

IRFA – Initial Regulatory Flexibility Analysis

ISA/US – International Searching Authority

ISR – International Search Report

IT – Information Technology

NPRM – Notice of Proposed Rulemaking

OIRA – Office of Information Regulatory Affairs

OMB – Office of Management and Budget

PCT Patent Cooperation Treaty

PPAC – Patent Public Advisory Committee

PPM – Patent Pendency Model

PTAB – Patent Trial and Appeal Board

R&D – Research and Development

RCE – Request for Continued Examination

RGDP – Real Gross Domestic Product

RIA – Regulatory Impact Analysis

U.S.C. – United States Code

USPTO – United States Patent and Trademark Office

1. For example, income from reimbursable agreements and recoveries. [↑](#footnote-ref-2)
2. Does not include “other income” such as reimbursements. The revenue in the transfer tables are solely from fee collections. [↑](#footnote-ref-3)