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SCHOOL OF LAW

Dennis Crouch¹
University of Missouri School of Law
203 Hulston Hall
Columbia MO, 65211

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Submitted via Regulations

Dear Undersecretary Kathi Vidal and members of the PPAC,

Comment from Professor Dennis Crouch on the USPTO Proposed Structural Fee Changes.

In response to the USPTO Proposed fee structure changes under Docket Number PTO-P-2023-0017, I would like to provide a commentary on the key aspects of the patent system's incentive structure and the importance of USPTO fees. Thank you for this opportunity to provide feedback.

Overview: I suggest that before any fee shifting occurs, it is essential to conduct an economic analysis to forecast the impact on USPTO revenue and on the innovator behavior. Overall, a well-designed fee structure can incentivize responsible behavior among patentees and promote a more effective and efficient patent system. However, any substantial shifts in fee structures should not be based on gut feelings or hunches held by government officials. In this regard, I would suggest that the USPTO chief economist or other economic experts analyze the potential impacts of the proposed fees.

Background: As a law professor at the University of Missouri and the author of the popular Patently-O website, a key aspect of my research has focused on patent incentives. I have long been interested in exploring how the incentive structure impacts innovation and inventor behavior. Through my research and role as Director of our Center for Intellectual Property and Entrepreneurship, I have

¹ Please note that I am writing in my own capacity and do not necessarily represent the views of the University of Missouri in this endeavor.



examined various topics such as patent litigation, patent prosecution, and the impact of patent law on the market.

The patent system serves as an engine for innovation by providing inventors with a legal monopoly over their creations for a limited time. This exclusive right provides innovative entities with the incentive to invest in research and development, as they can profit from their inventions without the normal level of competitive encroachment. Without this system of incentives, there would be fewer new technologies and products available, which would ultimately hinder progress and economic growth. Therefore, it is crucial that the patent system remains intact and continues to provide the necessary incentives for innovation.

USPTO fees are a crucial aspect of the overall incentive structure provided by the patent system. There are four general categories of fees that are worth noting. Ordinarily :

Category 1. Fees designed to raise money for the USPTO: This is the primary purpose of USPTO fees, as they provide for all the agency's funding. While these fees are necessary for the operation of the USPTO, they can also discourage participation in the patent system. For example, high filing fees may deter inventors from submitting patent applications, while maintenance fees may cause patentees to abandon their patents before the end of the patent term. Therefore, any changes to fee structures must balance the need for revenue with the need to promote innovation and economic growth. In general, fee increases should be justified, especially those that represent new fees or increases well beyond an inflationary index.

Category 2. Fees that create a costly screen: Higher fees can create a costly screen that filters out weaker patent applications and reduces the workload of patent examiners. While this may be beneficial in theory, it could also reduce market participation in the patent system, particularly among smaller businesses and individual inventors who may not have the financial resources to pay higher fees. This could ultimately lead to a less diverse pool of patent applicants, reducing the overall quality and diversity of patents granted. I would certainly suggest caution if the purpose of the increased costs is to constrain applications from China, India, or less developed nations.

Category 3. Fees that shift behavior without substantially shifting rights or raising overall costs: Certain fee structures can shift behavior without significantly increasing the overall cost of obtaining a patent. For example, fees that raise the cost of adding additional patent claims while keeping the cost of creating a family of patents quite low can incentivize patentees to file fewer claims per patent, which

can allow the examination system to operate more efficiently. This can ultimately result in a more streamlined and effective patent system.²

Category 4. Fees that discourage certain behaviors and consequently result in a loss of rights for users: Certain fees can be used to discourage behaviors that may result in the loss of rights for patentees. For example, fees for late maintenance fee payments can encourage patentees to stay on top of their obligations and prevent the loss of valuable patent rights. Similarly, high fees for inter partes review proceedings can discourage parties from filing unnecessary requests. This 4th category is obviously most potentially problematic and thus needs to be carefully examined.

The whole point here is that USPTO fees can serve as important levers in the patent system's incentive structure, and any changes to fee structures must be carefully considered.

Need for an Economic Analysis of Impact on both USPTO Revenue and Innovator Behavior Shift: Forecasting the impact of pricing changes has been a key feature of economic analysis since the time of Adam Smith. Before any fee shifting occurs, it is essential that the USPTO chief economist or other economic experts analyze the potential impact of fee shifting on both USPTO revenue and applicant behavior. This analysis should also consider the potential impact on innovators and investors, including their ability to participate in the patent system and potential impact on their innovation incentives. A careful economic analysis can help identify potential unintended consequences of fee changes and ensure that any adjustments to fee structures promote innovation, maintain a smooth running system, and serve the needs of the USPTO. Overall, the expertise of economists is a valuable tool in crafting effective patent policies and maintaining a well-functioning patent system.

Ultimately, a well-designed fee structure can incentivize responsible behavior among patentees and promote a more effective and efficient patent system. But, dramatic shifts in the fee structure should not be based upon gut feelings or hunches held by government officials.

Within the proposal, the economist should particularly consider applicant impact for the following major changes:

1. New fees associated with claiming priority to old applications.
2. New fees associated with large information disclosure statements (IDS).
3. New fees for after final consideration.
4. New and increased fees for AIA Trial filings.
5. New large costs for terminal disclaimers.

² Note here, that the proposed increased fees on excess claims does not fit this model, but rather falls into category 4 because it does not provide a reduced-fee pathway for applicants to file additional patents as part of a patent family.

6. Substantial increase in fees for additional claims (without providing a reduced fee pathway for continuation or other application forms).
7. Substantial increases in the costs for Design Patent applications
8. Substantial increase in RCE costs.

In conclusion, the proposed fee structure changes by the USPTO could have a significant impact on the patent system's incentive structure and innovation. It is crucial that any proposed fee changes be carefully considered and analyzed by economic experts before implementation.

Thank you for the opportunity to comment on this important issue. I would be happy to continue this conversation going forward.

Best regards,

/Dennis D. Crouch/

Dennis D. Crouch
Associate Professor of Law
Director, Center for Intellectual Property and Entrepreneurship
University of Missouri School of Law
crouchdd@missouri.edu
www.patentlyo.com