

Financial Independence For The Patent Office

Law360, New York (July 19, 2011) -- While headlines rightly focus on Congress' stalled efforts to address our nation's growing fiscal problems, federal lawmakers can and should be congratulated for at least one important legislative achievement — the recent overhaul of our patent laws.

Most observers agree that once completed, the new provisions will reduce the costs of filing new patent applications and resolving patent disputes while reducing the number of improvidently granted patents, and bringing our patent practices into greater harmony with those of other industrialized nations. Unfortunately, the House and Senate have yet to resolve one crucial issue that merits further effort on the part of Congress.

The Senate passed its patent reform bill earlier this year, and the House passed its at the end of June. The bills are nearly identical substantively, but one area, so-called "fee diversion," remains a point of contention. Fee diversion, where the United States Patent and Trademark Office loses some of the user fees it collects, is an arcane issue in a bill that is already far from the concerns of most Americans. Fee diversion, however, deserves our attention because ending it would be good for the patent system and would help generate new American businesses and jobs for years to come.

The PTO is entirely funded by the fees it charges users. Each time an inventor files a patent application, a fee is paid to the PTO to cover the costs of reviewing that application. The PTO may charge additional fees based on the complexity of the application, appeals or other procedures that require additional time and expense.

The fees charged by the PTO are generally about the same or even lower than those charged by other patent offices around the world, yet the PTO often generates more revenue than what Congress authorizes the agency to spend. That surplus cannot be used by the PTO but is instead "diverted" to be spent by other government agencies.

The Senate's bill ends fee diversion, but the House would put any surplus into a reserve fund that could be used by the PTO only after future congressional action. The issue could be resolved in a House-Senate conference, but due to the press of other business, particularly potential action on the debt ceiling, there is reportedly a plan for the Senate to simply adopt the House bill.

The issue of fee diversion is sufficiently important that the Senate should force a conference, and it would be truly unfortunate if the issue were shunted aside because Congress needs to address other fiscal matters. A strong, well-funded and healthy patent system is one of the ways to enhance our economic growth and fiscal situation over the long-term.

Ending fee diversion should lead to more funding for the PTO, but more importantly should lead to more predictable funding, with less reliance on the on the yearly congressional budget process.

The last three decades have seen dramatic growth in the number of patent applications filed in the PTO. That growth has led to a chronic shortage of qualified patent examiners, with two significant deleterious effects.

First, the length of time for applications even to be considered, much less granted or rejected, can be three, four or even five years depending on the area of technology. While additional reliance on technology, innovative new programs at the PTO and cooperation with other patent offices hold some promise at reducing the PTO backlog, only the hiring, training and retention of examiners can finally solve the problem.

Delay in obtaining a ruling from the PTO has serious consequences for inventors, their companies and the economy. Some technologies, especially those related to health care, require huge upfront investments to develop, test and bring products to market. Venture capitalists, businesses and other investors cannot bear the risks of product failure, regulatory hurdles, third-party payor policies and consumer preference if they do not have the promise of patent protection to help them recover their investment. Every day, ideas that could be the basis for strong businesses and jobs are put on the shelf because of these risks.

Putting the PTO on more independent financial footing should lead to faster and better examination of patent applications, thereby providing investors with faster and better information about whether an idea will receive patent protection. Promising ideas will be funded more quickly, generating new businesses and jobs. Investors will avoid losing money in businesses for which patent protection cannot be obtained, thereby preserving funds for other capital-starved ideas.

Other products, like toys and games, have very short product life cycles, meaning that under the current system, a product may come to market, be copied by others and fade from the public's interest before the PTO acts on a patent application. If the PTO could act more quickly, copiers, often from other countries, can be held at bay for a greater portion of a product's life, meaning a greater return on the investment in innovators, reducing risks and encouraging economic and job growth.

The second problem caused by having a large backlog at the PTO is that more patents will be granted on ideas that are not new or otherwise should not be protected. Experts disagree about whether there has been an increase in patents on unpatentable ideas and whether the PTO backlog is a cause, but there is no doubt that fighting even the least meritorious patent can cost several millions of dollars.

Financial independence for the PTO should lead to better examination of patents and a faster and more

complete implementation of some of the other changes in the House and Senate bills. Those changes have the potential to lower the costs of disputes about ideas that should be in the public domain, allowing businesses to focus on generating new products and new jobs.

Our government's debt and deficit are truly momentous challenges that require sustained attention and substantial action by Congress. Whether one believes that revenues should be raised, spending should be cut, or some combination of the two, there is no credible plan to set us on a course of financial health that does not rely on economic growth.

The patent system has encouraged the innovation that has driven growth in the United States since its founding. Congress should be commended for addressing problems in our patent laws and making changes to improve the system for its users and the nation. In these times of fiscal stress, it is particularly important for Congress to finish the job by ending fee diversion and setting the PTO on a course to financial independence.

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