Does Congress Impermissibly Raid the PTO Cookie Jar?

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The Federal Circuit found otherwise in 2006, but key policy questions remain.

"Congress has imposed fees on the grant of patent rights since the first Patent Act in 1790. Under the 1790 Act, patent fees totaled roughly $5. Patent fees did not total more than $100 until 1965…. In 1982, Congress set the patent application fee at $300, the patent issuance fee at $500, and the patent maintenance fees at $400…, $800…, and $1,200…." Figueroa v. U.S., 466 F.3d 1023, 1026 (Fed. Cir. 2006) (notes and citations omitted).

Continuing, the court said, "Between FY 1991 and FY 2004, the PTO collected roughly $11.1 billion in total fee revenue (including surcharge revenue) while its operational costs only totaled around $10.6 billion, for a surplus of approximately $545.1 million. The Court of Federal Claims found that from FY 1992 to the present, at least $422.5 million in patent fee revenue has been directed to non-PTO spending." *Id.* at 1027.

In August 1997, after I had complained to Senator Judd Gregg (NH) about fee diversion, he responded stating, "more fees are being collected than are needed to operate the Patent and Trademark Office." Pursuing the issue in local media, I wrote, "I see that as of October 1, 1997, the patent fees have gone up once again. If the Office does not need the money, what accounts for yet another annual increase? Senator Gregg needs to hear that this is a matter of concern to his constituents." I finished, saying, "In the Information Age, taxing innovation appears to be fully equivalent to eating our seed corn."

Nothing came of widespread protests of that kind. I was, hence, gratified when an action was filed on behalf of inventor Miguel Figueroa; it contended that generating funds beyond those needed for day-to-day PTO operations violated the Patent as well as the Direct Tax Clauses. *Figueroa,* 466 F.3d at 1025-26. The Court of Federal Claims, however, granted summary judgment for the government, concluding that "Figueroa had failed to establish that there was no rational relation between Congress's use of the fee revenue and the promotion of the useful arts." *Id.* at 1029 (citing 66 Fed.Cl. 139, 146 (2005)).

Upholding that conclusion, the majority of the Federal Circuit panel said, "We reject Figueroa's contention that the fees were categorically beyond Congress's power under the Patent Clause." *Id.* at 1030-31. Citing Eldred v. Ashcroft, 537 U.S. 186 (2003), *Figueroa* concluded that the legislation must be upheld if rational policy justifications exist regardless of those specifically articulated by Congress. *Id.* at 1032. It found it "clear that the fee legislation at issue here had a rational basis for at least three separate reasons." *Id.* First, it cited several sources of direct and indirect costs other than for day-to-day operations and concluded that Figueroa "has not even attempted to quantify these other costs… or made any effort to show that they are disproportionate to revenue raised [in excess of that] directly appropriated to the PTO." *Id.* Second, the court concluded that fees might be set with an eye to future costs. *Id.* at 1033.

Last, the opinion provocatively speculates, Congress might set fees "to discourage undesirable behavior" such as filing solely for ego gratification. *Id.* at 1033-34. Regardless of whether that was an objective, "Filing and issue fees alone would surely deter all but the most hearty jokesters or individuals dazzled by unrealistic market prospects." Field, *Patent Systems: More Easily Faulted Than Fixed,* 5 (2007) (rebutting the notion that user fees make trivial patents more likely) (available at

http://ssrn.com/abstract=962561).

Judge Newman concurred in *Figueroa,* but especially objected to the majority's final reason for affirming the lower court's decision. 466 F.3d at 1036. She argued, "[A]s the income increased from maintenance fees, the PTO came to be viewed as a kind of 'profit center' for the support of unrelated government projects. Meanwhile, the backlog of the PTO is rapidly increasing, and expanded services remain unfunded." *Id*. at 1037. Ultimately, she found Figueroa's "constitutional arguments are not devoid of merit, and warrant deeper exploration than they have thus far received." *Id.*

Nothing has changed or is likely to if pending bills are enacted. Based on information obtained from the PTO and OMB, Intellectual Property Owners estimates that $885 million in user fees will have been withheld during the past decade. *IPO Chart Showing the History of Fees Withheld from the USPTO Since 1991,* at www.ipo.org. Yet, until fees charged can be shown to exceed direct and indirect costs of the patent system, including such things as examiner health-care and retirement, not to mention costs to the judiciary, courts will be powerless to entertain constitutional arguments.

Political and policy arguments, however, are a different matter. It is indisputable that Congress has, over the past 46 years, all but eliminated what was once nearly a full public subsidy. Those who believe that this move was ill advised need better to document direct and indirect benefits that warrant continued, and possibly increased, subsidy. They also need better to rebut the still widespread notion that patents are unnecessary to spur socially and economically valuable innovation.

The district court opinion in *Myriad,* for example, as mentioned previously <link to op-ed?>, strongly suggests that, had the patentee not developed ways of testing for

cancer-related mutations, common knowledge and widely-used techniques would have enabled others to do so. *Myriad II,* 702 F.Supp.2d at 203.

Putting aside Dr. Skolnick's critical inspiration to mine Mormon genealogical records, others *could* indeed have done so. *Id.* at 201. Whether they *would* have is another matter of course. The same opinion notes $122 million in private investment. *Id.* It is difficult to envision realistic prospects for research, testing and delivery absent means to recoup that or even much smaller infusions of private risk capital that patents presumably provide.