



UNDERSTANDING PATENT FEE DIVERSION AND HOW IT IS AFFECTED BY CURRENT SENATE AND HOUSE PATENT REFORM BILLS

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Strictly speaking, “diversion” of patent fees by Congress from the USPTO should be called “withholding” of patent fees. Under existing 35 U.S.C. §42, all fees collected by the USPTO are deposited in the U.S. Treasury in a Patent and Trademark Office Account. As a bookkeeping matter, no fees have actually been diverted out of the USPTO account. “Diversion” occurs because Congress “withholds” the money in the account, and the USPTO cannot obtain access to the money. This allows Congress to spend money elsewhere without exceeding its spending quotas.

The USPTO annual “[Performance and Accountability Report](#)” reveals a history of fee withholding. A table on the “Composition of USPTO Assets” on page 59 of the Report shows a 2010 “Fund Balance with Treasury” of \$1.436 billion. This includes fees of \$814.7 million termed “unavailable” (see page 74 of the Report). Many of these fees were withheld by congressional appropriators years ago, but are still carried on the books. No one expects that these fees will ever be made available to the USPTO. Appropriators withheld the fees so they could spend general taxpayer revenues elsewhere in the government without exceeding their appropriations ceilings. (Note, for reasons not important here, IPO calculates fees withheld since 1992 higher, at about \$885 million.)

The “Revolving Fund” in the Senate’s patent reform bill, S. 23, would have made patent and trademark fees available to the USPTO automatically by essentially taking the USPTO off budget. This would have avoided future battles against further patent fee diversion. IPO generally supports the Senate patent reform bill.

The greatest disappointment with the House-passed patent reform bill H.R. 1249, which IPO also generally supports and which the Senate will likely consider later this month, is its failure to stop USPTO fee diversion. The House-passed patent reform bill creates another USPTO account, a “reserve fund,” but nothing in the proposed statutory language guarantees the USPTO access to the funds in this new account. The language of H.R. 1249 defers to future appropriations bills to instruct the USPTO on how to access fees in the new USPTO account. Therefore, despite some claims to the contrary, the creation of this new account, alone, will not stop diversion.

Although the House-passed patent reform bill does not guarantee the end of diversion of fees from the USPTO, congressional appropriators may be able to craft language for the annual appropriations bills to avoid diversion in Fiscal Year (FY) 2012 and in future years. IPO and others are seeking congressional clarification of (1) whether excess fees deposited in a reserve fund (“excess” meaning fees collected by the USPTO that exceed the agency’s authorized spending amount) will be available to the USPTO without passage of a supplemental appropriations bill, (2) whether release of excess fees from the reserve fund will “score” against the Appropriations Committee’s so-called section 302(b) allocation, and (3) for FY 2012 specifically, whether excess

fees are likely to be diverted under a continuing resolution if Congress does not pass a FY 2012 appropriations bill by October 1, 2011. These issues will be addressed in more detail below.

On July 13, 2011, the House Appropriations Committee approved the Commerce, Justice and Science and Related Agencies Subcommittee (CJS) [FY 2012 bill](#). The USPTO is covered on pages 8 to 11 of the bill. In an opening statement, Subcommittee Chairman Frank Wolf (R-Virginia) said, "The bill includes \$2.7 billion for the Patent and Trademark Office -- the full estimate of fee collections for FY12 -- and a 28 percent increase above FY11. Should PTO collect additional fees above the amount appropriated, the bill makes that excess available to PTO." On July 20, the full Appropriation Committee also issued a [Report](#) covering the USPTO on pages 16 to 20.

Some Q & A regarding USPTO funding for further clarification:

(1) Will "excess" FY 2012 fees be available to the USPTO without passage of a supplemental appropriations act?

In FY 2010, the USPTO was unable to obtain access to excess fees in its account in the U.S. Treasury because the law requires a supplemental appropriations act to be passed by both houses of Congress and signed by the President. The above-mentioned remarks by Chairman Wolf suggest that the bill language in the FY 2012 Appropriations Act may be treated in a different manner and may not require a supplemental appropriations act to be passed. Chairman Wolf's statement is consistent with statements made on the House floor by the Chairman of the Full House Appropriations Committee, Rep. Hal Rogers (R-Kentucky) but IPO is hoping for a more specific commitment. Also, the Senate Appropriations Committee has not yet spoken on this issue.

(2) Will release of "excess" fees from a reserve fund "score" against the Appropriations Committee's section 302(b) allocation?

Another point on which clarification is needed is whether release of excess fees will "score" against Appropriations CJS Subcommittee section 302(b) allocations. This is a technical budget issue of critical importance. Appropriations subcommittees are given annual limits ("allocations") for how much they can appropriate. In the past, when "excess" patent fees have been made available to the USPTO, those fees have been considered to count against ("score against") the allocation. If making excess fees available scores against the CJS Subcommittee allocation, the Subcommittee may have to choose between making the fees available to the USPTO and appropriating general taxpayer revenue for another government program within its jurisdiction.

(3) Are fees likely to be diverted under a continuing resolution if Congress does not pass a FY 2012 appropriations bill by October 1, 2011?

The next hurdle to achieving adequate funding will be Congressional approval of the FY 2012 Appropriations bill that includes the USPTO. The government's FY 2012 begins on October 1, 2011. If Congress fails to pass the Appropriations bill by October 1, as has been the case more often than not in recent years, the USPTO and other affected agencies will be funded by a "continuing resolution," or "CR." A CR is an appropriations act that continues the funding of agencies, usually at their level from the previous FY, until a new annual appropriations act can be passed. The USPTO is slated to obtain a major increase in funding in the FY 2012 Appropriations bill reported

out of the House Committee but not yet passed by either the House or the Senate. If the USPTO has to operate under a CR beginning October 1, its funding could be limited to the FY 2011 level. Sometimes, however, a CR contains extra funding for particular agencies via so-called “anomalies”. If Congress has to pass a CR to keep the USPTO operating, IPO and other supporters will be urging an anomaly to provide extra funding for the USPTO.

(4) Will deficit reduction laws affect the USPTO?

The controversial deficit reduction law (Budget Control Act of 2011, Pub. L. No. 112-25, Aug. 2, 2011) is unlikely to have a large effect on USPTO funding in FY 2012. The deficit reduction law could have a large impact on the USPTO in FY 2013 and future years depending on the recommendations of the ad hoc congressional “Super Committee.” The law heavily backloads spending cuts to the later years of the 10-year deficit reduction period. Cuts in FY 2012 amount to only around 2 percent of discretionary spending. If the Super Committee fails to reach agreement on additional cuts by the end of this year, automatic across-the-board cuts will not take effect until FY 2013. This is not to say that the USPTO will not feel the pressures of deficit reduction. Funds for discretionary spending will become increasingly scarce. Appropriators will look for money everywhere they can find it, possibly including in the USPTO. Thus far, Congress has passed only one of the 12 major appropriations bills for the new fiscal year. As mentioned above, the bill proposing a major FY 2012 increase for the USPTO has not yet passed.

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