

## Coburn Amendment to Prevent Fee Diversion at the PTO

- The Coburn amendment would provide an immediate solution to the financial crisis at the Patent & Trademark Office (PTO). The amendment creates a lockbox—a new revolving fund at the Treasury—where user fees that are paid to the PTO for a patent or a trademark go directly into the revolving fund for the PTO to use to cover its operating expenses. Congress would **not** have the ability to take those fees and divert them to other general revenue purposes.
- This amendment is the exact same language 95 members of this Body voted to accept in March. It was also in the bill passed by the House Judiciary Committee by a vote of 32-3.
- Unfortunately, the House replaced the Senate language after negotiations with House Appropriators, and the result **does not guarantee** an end to PTO fee diversion, despite claims to the contrary.

### Background

- PTO receives fees through the payment of patent and trademark user fees—fees paid by small inventors, companies, and universities to protect their ideas and technology. While those that pay these fees expect efficiency and quality from the PTO, they do not receive it.
- The two major problems at the PTO, 1) the growing number of unexamined patent applications (backlog), and 2) the increased time it takes to have a patent application examined (pendency) are the result of a “lack of connection between the monies flowing into the agency and those available for expenditure.”<sup>1</sup> (It takes 26-27 months for an examiner to take his first action,<sup>2</sup> and over 1 million applications are pending,<sup>3</sup> with approximately 700,000 waiting for first action).<sup>4</sup>
- One of the primary reasons for these incredibly long waiting periods is a lack of resources at the PTO. By providing a **permanent** end to fee diversion, Congress has the ability to contribute greatly to the enhanced efficiency of this agency.

### Congress Has Not Ended the Practice of Diverting Fees from the PTO

- In total, from 1992 through 2011, Congress has diverted **approximately \$900 million** from the PTO.<sup>5</sup> As recently as 2004, Congress diverted \$100 million from the PTO, in 2007, it diverted \$12 million, in 2010, it diverted \$53 million, and the estimate for 2011 is \$80-\$85 million.<sup>6</sup>
- The House bill was accompanied by a letter from House Appropriations Chairman, Hal Rogers, to Speaker John Boehner, in which Rep. Rogers asserts the power of the Appropriations Committee and states the committee will include language in future appropriations bills that ensures fees collected by the PTO in excess of its annual appropriation will be available only to the PTO for its activities.
- However, elections have consequences and those occupying these leadership positions can quickly change. **Promised restraint by one or two members is not enough to prevent future diversion.**
- In fact, in June 2000, the House debated PTO funding, and an interesting exchange took place between Rep. Roybal-Allard and Rep. Rogers. Rep. Roybal-Allard discussed the problem of PTO fee diversion and the need for user fees to pay for the work of the agency. She asked Rep. Rogers if 100% of the user

<sup>1</sup> S. Rep. No. 110-259, at 34 (2007).

<sup>2</sup> United States Patent & Trademark Office, *Performance & Accountability Report: Fiscal Year 2010*, at 12, available at <http://www.uspto.gov/about/stratplan/ar/2010/USPTOFY2010PAR.pdf>.

<sup>3</sup> *Id.* at Table 3, Summary of Total Pending Patent Applications (FY 1989 - FY 2010).

<sup>4</sup> United States Patent & Trademark Office Data Visualization Center available at <http://www.uspto.gov/dashboards/patents/main.dashxml>.

<sup>5</sup> U.S. Patent & Trademark Office, *Funding History Chart FY1992-FY2010*, Prepared by USPTO, February 2011.

<sup>6</sup> *Id.*

fees go to the PTO, and Mr. Rogers stated the fees are **not** siphoned off for any other agency or purpose and remain in the account for future years.

- However, according to the PTO, in fiscal year 2000 approximately \$121 million was, in fact, diverted from the PTO and not available for PTO to spend. Fiscal year 2000 is actually the year with the second highest amount of fees diverted since 1992, and Rep. Rogers claims no diversion occurred that year.

### **The Language Required to Prevent Diversion in Appropriations Bills is Not Guaranteed**

- In addition to the House bill's funding language, in order for the arrangement to work, final appropriations legislation must also include language each year, which states any excess funds above the initial appropriation are to be deposited into a PTO Fee Reserve Fund. **Several problems with this arrangement that leaves the PTO susceptible to future diversion.**
- **First**, future Appropriations Committee chairman may not agree to such an arrangement in subsequent appropriations bills, and Rep. Rogers' letter does not bind future chairmen.
- **Second**, there is no similar commitment from Senate Appropriations Committee chairmen.
- **Third, the House funding structure requires that Congress actually pass appropriations bills on time.** The PTO falls under the Commerce, Justice, Science appropriations legislation, and it is good to see the proposed language was included in the 2012 legislation recently passed by the House Appropriations Committee. However, there is no guarantee this will pass the House in its current form, much less the Senate, and it is highly unlikely to pass within the period the PTO would need in order to timely access its initial appropriation and any excess fees. According to CRS, over the past 10 years, NONE of the CJS appropriations legislation has been signed into law before the beginning of the fiscal year the bill funds.

### **Even If the Proposed Appropriations Language is Included in Every Future Appropriations Bill, Fee Diversion May Still Occur**

- The current language leaves too much discretion in the hands of Congress and the Appropriations Committee, and too much uncertainty for the PTO.
- **First**, even if Congress appropriates funding to the PTO equal to its initial request, the PTO will still have difficulty accessing any excess fees it collects beyond that request, particularly in a year in which Congress only passes a CR.
- **Second**, the bill's new PTO Fee Reserve Fund for excess fees is not much different from the account that exists today or those that have existed in the past. Currently, there is already a PTO Appropriation Account, and it is allegedly only for use by the PTO. Yet, fee diversion has occurred in almost every year since 1992.
- **Third**, in order to gain access to any excess fees in the new PTO Fee Reserve Fund, the PTO must again come to Congress to ask for the money. While this will not require an additional appropriations bill, it will require the PTO to go through a reprogramming request, which will likely create several procedural hurdles that will hinder effective operation of the PTO.
  - In a staff briefing this summer, the PTO Director noted the PTO usually cannot provide an exact figure on the amount of fees diverted until at least September 1<sup>st</sup>, if not later.

- Prior versions of appropriations bills, including those for FY 2009, FY 2010, and FY 2011, states a reprogramming request made after August 1<sup>st</sup> will NOT be available to an agency except in “extraordinary circumstances” and only after both House and Senate Appropriations Committees have received 30 days’ notice of the request.
- It is up to the Appropriations Committee to define an “extraordinary circumstance,” but even if PTO qualifies, sending a request after September 1<sup>st</sup> would violate the 30 day notification requirement.
- While the 2012 House CJS Appropriations bill does not have the August 1<sup>st</sup> language, it is clearly within the discretion of the Appropriations Committee to change Section 505. Thus, there is no guarantee that future versions of Section 505 will be free from limitations on the PTO.
- **Finally, reprogramming requests are only approved by 4 people—the chairman and ranking member of both the House and Senate Appropriations Committees.**
- **Finally**, in the recent agreement on increasing the debt ceiling, Congress established a “super committee” to make recommendations for cutting the deficit. Because the current bill keeps PTO funding at the discretion of Congress, there is nothing that prohibits the PTO’s budget and appropriation from being cut during the work of this committee.

#### **An Amendment to Permanently End Fee Diversion Is the Only Effective Remedy**

- In 2007, the Judiciary Committee approved a similar version of this amendment. Furthermore, in 2008, the entire Senate approved, by unanimous consent, an amendment to the 2009 Budget Resolution by Senator Hatch that *condemns* the diversion of funds from the PTO. In May 2010, Rep. Conyers and Smith introduced legislation to permanently end fee diversion. And, in March of this year, 95 senators voted for this language to end fee diversion.
- Nothing in this amendment allows the PTO to escape Congressional oversight and accountability. In the negotiations that produced the House funding language, the constant theme was “without going through the appropriations process, the PTO will not be subjected to congressional oversight.”
- The PTO is no exception to calls for more transparency in all areas of the government. Enacting this amendment will **NOT** put the PTO on “auto-pilot” and reduce oversight of PTO operations, or change the jurisdiction of any committee. In fact, the amendment requires extensive transparency and accountability from the PTO via four reporting requirements, giving Congress, including the Appropriations Committee, plenty of opportunities to conduct vigorous oversight.
- There cannot be true patent reform without ending fee diversion and providing the PTO with a *permanent, consistent* source of funding. *None of the changes the bill makes can be implemented effectively if the PTO does not have permanent access to its user fees, and this amendment is the only language that will accomplish this goal.*