RICHARD B BELZER PHD

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Mr. Nicolas Oettinger
U.S. Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313–1450

Delivered by email: regulatory_review_comments@uspto.gov

Comments on Preliminary Plan for Retrospective Analysis of Existing Rules (Docket No. PTO–C–2011–0, 76 Fed. Reg. 39796)

Dear Mr. Oettinger:

I am pleased to submit these comments to the U.S. Patent and Trademark Office (USPTO) in response to its request for comment on the Office's Preliminary Plan for Retrospective Analysis ("Preliminary Plan").[1] The Office previously sought information from the public on March 22, 2011[2] concerning how best to implement President Obama's Executive Order 13563 dated January 18, 2011.[3] The USPTO prepared the Preliminary Plan in concert with its parent, the Department of Commerce, and made it available to the public on May 18, 2011.[4] My

[1] U.S. PATENT AND TRADEMARK OFFICE, *Preliminary Plan for Retrospective Analysis of Existing Rules*, 76 Federal Register 39796 (2011).

[2] U.S. PATENT AND TRADEMARK OFFICE, *Improving Regulation and Regulatory Review; Request for Information*, 76 Federal Register 15891 (2011).

[3] BARACK OBAMA, *Executive Order 13563: Improving Regulation and Regulatory Review*, 76 Federal Register 3821 (2011).

[4] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules* (2011), http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf.

Regulation, Risk, Economics & Information Quality
Strategy & Analysis

rbbelzer@post.harvard.edu
PO Box 319
Mount Vernon, VA 22121
(703) 780-1850

April 14 comments on the March 22 Federal Register notice[5] are attached for your convenience.

The Preliminary Plan is responsive only in part to comments from the public. It lists lists 20 suggestions the Office received from 11 commenters,[6] eight of which are clearly recognizable as mine:

1. That USPTO appoint an individual tasked with ensuring USPTO compliance with regulatory principles and administrative rules and procedures
2. That USPTO establish a system whereby its customers could seek to contest USPTO actions and enforce USPTO compliance with regulatory principles
3. That USPTO foster public participation in its regulatory process through making information public early and in such a fashion as to encourage dialogue among interested parties
4. That for its retrospective review, USPTO focus on areas that have been the subject of complaints by applicants and counsel
5. That alternative regulatory reform opportunities should be ranked in terms of marginal net social benefit, and that USPTO should not rank alternatives merely in accordance with its own potential cost savings
6. That USPTO designate by default every proposed regulation as economically significant within the meaning of E.O. 12866, and rescind that designation only on a showing that the proposed regulation is not economically significant
7. That USPTO establish a social media portal or online discussion forum to foster discussion, development of ideas, and the sharing of information relevant to the regulatory process, and utilize and interface with other forms of social media to disseminate information to a broad audience

[5] RICHARD B. BELZER, *Comments on "Improving Regulation and Regulatory Review; Request for information" (76 Fed. Reg. 15891)* (2011), http://www.uspto.gov/patents/law/comments/belzer14apr2011.pdf.

[6] Comments were submitted by 12 entities; presumably one comment was submitted after the expiration of the 30-day deadline. See http://www.uspto.gov/patents/law/comments/improving_regulation.jsp,

8. That USPTO use the Paperwork Reduction Act to inform regulatory decision-making and to help expedite the analytic process and the regulatory development timeline

I note that the Director could have already adopted a few of these suggestions for managing the process of retrospective reform in response to the March 2011 notice and public comment, most importantly, Items 1 and 6 above.[7] However, I am aware of no public evidence that these (or any other) actions have been taken. While I appreciate the opportunity to comment again, I am concerned that some within the USPTO may have adopted the strategy of initiating multiple rounds of public comment in order to delay making any actual changes in regulatory practices and procedures.

More troubling, there appears to be no correlation at all between the suggestions commenters provided and what the Office now proposes to do. It's as if the USPTO and its customers live in different worlds. The USPTO has ignored all of the public's suggestions for process changes and all but one of the substantive rules identified by the public for retrospective analyis and potential reform. The USPTO's stated priorities consist of regulations that it might be streamlined in ways that benefit the Office itself, not applicants or the patent system more generally.

For this reason, I regrettably conclude that the Preliminary Plan is not a serious effort to implement Executive Order 13563.

USPTO Efforts Underway to Reform Regulation Independent of Executive Order 13563

In a section of the Preliminary Plan entitled "Current Agency Efforts Already Underway Independent of E.O. 13563," the USPTO credits itself for having "undertaken efforts to review its rules, consistent with the goals of E.O. 13563."[8] This characterization is

[7] For example, the Director could have immediately assigned Item 1 to the Chief Economist and ordered the director of the Office's information resources management office to implement Item 6.

[8] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*,

fundamentally inaccurate, and thus it raises serious doubt about whether the Office is genuinely committed to implement the President's directive.[9]

The USPTO Grossly Misrepresents Current Regulatory Efforts

In particular, the USPTO claims that its decade-long effort to radically shift the burden of examination to applicants qualifies as an example of regulatory reform:

> In 1997, USPTO enacted a major overhaul of the patent regulations set forth in Title 37 of the Code of Federal Regulations, in order to streamline and simplify the process for submitting patent applications and for issuing patents. 62 FR 53131 (Oct. 10, 1997).[10]

This "major overhaul" was conducted in violation of both existing presidential directives (most notably, Executive Order 12866[11]) and applicable Federal statutes (most notably, the Administrative Procedure Act [APA])[12], the Paperwork Reduction Act [PRA],[13] and the Regulatory Flexibility Act [RFA][14]). Each rule in the collection was promulgated and/or proposed as if it were exempt from the APA, thus allowing the Office to ignore the RFA. Each rule included massive new

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http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf.

[9] The Commerce Department's Preliminary Plan appears to rely too much on unexamined contributions made by senior staff of its constituent agencies.

[10] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf.

[11] WILLIAM J. CLINTON, *Executive Order 12866--Regulatory Planning and Review*, 58 Federal Register 51735 (1993).

[12] 5 U.S.C. §§ 551 and 553.

[13] 44 U.S.C. § 3501 *et seq*., and 5 C.F.R. § 1321 *et seq*.

[14] 5 U.S.C. § 601 *et seq.*

collections of information[15] for which the Office failed to prepare objectively based burden estimates and seek public comment on them.[16] Each rule in the collection that was submitted to OMB for review under Executive Order 12866 was misclassified, presumably to avoid having to prepare a Regulatory Impact Analysis.[17] The signal achievements of this "major overhaul" were the destruction of comity between the Office and its customers and an entirely predictable judicial rejection of its asserted authority to issue substantive legislative rules,[18] thus terminating it before it resulted in irreparable harm.

Moreover, the stated purpose of these rules, as portrayed in the Plan, could hardly be more at odds with their predictable effects. While the USPTO says that the rules' stated purpose was "to reduce the regulatory burden on the public by simplifying the requirements of the rules, rearranging portions of the rules for better context, and eliminating unnecessary rules or portions of rules," USPTO's Regulatory Agenda entries show that the Office's true intent was to shift the burden of proof for patentability to applicants.[19] It is thus unsurprising that these rules

[15] "Collection of information" is a term defined in the Paperwork Reduction Act, 44 U.S.C. § 3502(3), and in OMB's implementing regulations, 5 C.F.R. § 1320.3(c).

[16] These are required by 44 U.S.C. § 3506(c).

[17] At least one economically significant NPRM was not even submitted to OMB. See U.S. PATENT AND TRADEMARK OFFICE, *Examination of Patent Applications That Include Claims Containing Alternative Language; Proposed Rule [0651-AC00]*, 72 Federal Register 44992 (2007).

[18] Tafas v. Dudas, 541 F. Supp. 805, (E.D. Va. 2008 April 1, 2008). ("[A]ny rules that may be deemed substantive will be declared null and void.")

[19] The Agenda entry for the rule arbitrarily limiting the number of claims is particularly instructive: "The United States Patent and Trademark Office (Office) revises the rules of practice to share the burden of examining applications containing an excessive number of claims." See U.S. PATENT AND TRADEMARK OFFICE, *Regulatory Agenda #742. Changes to Practice for the Examination of Claims in Patent Applications [RIN 0651-AB94]*, 70 Federal Register 64479, emphasis added (2005). See also U.S. PATENT AND TRADEMARK OFFICE, *Regulatory Agenda #741. Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, And*

were met by near universal opprobrium in the patent community. I personally submitted public comments estimating that these rules would have imposed on inventors tens of billions of dollars in new paperwork burdens each year.[20] The USPTO has never rebutted my estimates.

It is deeply worrisome that USPTO would make such outlandish claims in the Preliminary Plan. It strongly suggests that, at least at the senior staff level, there is frank opposition to the President's regulatory reform directive. I reiterate the most important suggestion I made in my April 2011 comments: The Director needs to "appoint a qualified individual charged with reforming the Office's culture and to delegate to this person both the responsibility and the authority to make it happen":

> Such an appointment must include a delegation of bureaucratic authority commensurate with the responsibility. To ensure that the management reform outlives the tenure of the person assigned to establish and initially implement it, and that the bureaucracy does not return to its old ways, the Director must establish systems whereby the USPTO's customers can enforce Office compliance.[21]

The Director has assigned to the Deputy General Counsel the responsibility for implementing the Plan, including the responsibility of "foster[ing] an internal culture of retrospective analysis."[22] The

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Applications Containing Patentably Indistinct Claims [RIN 0651-AB93], 70 Federal Register 64479 (2005); U.S. PATENT AND TRADEMARK OFFICE, *Regulatory Agenda #743. Changes to Information Disclosure Statement Requirements and Other Related Matters [RIN 0651-AB95]*, 70 Federal Register 64479 (2005).

[20] RICHARD B. BELZER, *Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget RE ICR 0651-0031* (2008), http://www.reginfo.gov/public/do/DownloadDocument?documentID=57744&version=1. I did not attempt to estimate social opportunity costs.

[21] RICHARD B. BELZER, *Comments on "Improving Regulation and Regulatory Review; Request for information" (76 Fed. Reg. 15891)*, http://www.uspto.gov/patents/law/comments/belzer14apr2011.pdf.

[22] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 21. There also is reason to be concerned that this is more "talking point" than

problem is that it is not at all clear that the Office of General Counsel is capable of performing these functions. In recent years, it has been at least a willing accessory to a culture of analytic ignorance within the Office.

No Attention Paid to Illegal Regulation via Guidance

I am also disturbed to read in the Preliminary Plan that the USPTO believes that the "majority" of regulatory burdens are statutory.[23] This gives short shrift to the Office's regulations, as if it is a passive bystander. In previous comments to the USPTO, I also have noted that the Manual on Patent Examining Practices (MPEP) is a morass of regulation masquerading as guidance:

> The MPEP is a huge compendium, updated most recently in July 2010 (8th Edition, Revision 8). The PDF version exceeds 32 megabytes. It clearly imposes regulatory burdens on applicants beyond those contained in the USPTO's rules. Some variant of "require" appears 8,400 times. The words "must" and "shall" occur more than 6,700 and 5,700 times, respectively. The phrases "applicant[s] must" and "applicant[s] shall" occur 286 and 85 times, respectively, and there are many other occurrences of "must" or "shall" that are regulatory in nature but involve more complex syntax.[24]

The USPTO will never have an effective plan of attack on obsolete, counterproductive, and wasteful regulations unless it

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genuine intent. Similar language appears five times in the Commerce Department's Preliminary Plan—four of them within the USPTO's subsection. Three of the four comically describe the USPTO's "culture of retrospective analysis" as either "existing" or "ongoing."

[23] "[T]he majority of compliance requirements for patent applicants are set forth at Title 35 of the United States Code." See U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf.

[24] RICHARD B. BELZER, *Comments on Proposed Changes to Restriction Practice in Patent Applications, 75 Fed. Reg. 33584 [June 14, 2010]* (2010), http://www.uspto.gov/patents/law/comments/belzer13aug2010.pdf.

addresses its guidance. As I stated in my April 2011 comments, in the context of paperwork burdens:

> [T]he USPTO must first correctly estimate the burdens of its existing information collections. Current USPTO burden estimation practices are substandard, and the Office is unresponsive to public comments that say so. USPTO has no comprehensive inventory of its information collections and it ignores the information collection burdens created by the MPEP. Over a year ago,[25] the Office sought comment on a proposed revision to its burden estimation methodology. Nothing apparently has come of this effort.[26]

To be taken seriously by the President, the USPTO must include a comprehensive review of its longstanding practice of regulating through guidance. This is missing entirely from the Preliminary Plan.

Will Patent Reform Legislation Help?

The Preliminary Plan advances a convenient conceit of Executive branch agencies: the problem is really Congress' fault. Therefore, the story goes, what is really needed to solve the problem is the delegation of more legislative authority to the Executive branch. The Preliminary Plan predictably offers this excuse:

> USPTO has worked in conjunction with the Administration and is actively engaged in patent reform legislation currently pending in Congress. USPTO believes this reform legislation will result in

[25] That is, on February 25, 2010. See U.S. PATENT AND TRADEMARK OFFICE, *Request for Comments on Methodology for Conducting an Independent Study of the Burden of Patent-Related Paperwork*, 75 Federal Register 8649 (2010); RICHARD B. BELZER, *Letter to Raul Tamayo RE: Request for Comments on Methodology for Conducting an Independent Study of the Burden of Patent-Related Paperwork (75 Fed. Reg. 8649)* (2010), http://www.uspto.gov/patents/announce/pra_study_regchkbk.pdf.

[26] RICHARD B. BELZER, *Comments on "Improving Regulation and Regulatory Review; Request for information" (76 Fed. Reg. 15891)*, http://www.uspto.gov/patents/law/comments/belzer14apr2011.pdf.

> significant improvements to the patent system and better results both for the public and USPTO.[27]

There is no question that Congress often gives Executive branch agencies greater responsibility than authority for solving a problem. Congress is especially apt to delegate decisions to an agency when it was unable to reach a legislative compromise. But this is not obviously one of those cases. Congress has delegated the management of the patent system to the USPTO, but it has refrained from delegating policy-making responsibility.

Moreover, there are reasons to believe that Congress would exacerbate regulatory problems if it did succumb to the temptation to delegate substantive rulemaking authority to the USPTO.

First, as noted above, since at least 2005 the Patent Office's strategic vision has been to accomplish its mission by firing the customers it doesn't like and shifting to the remainder as much as possible of its burden of examining applications. In short, the USPTO has striven to fundamentally alter its role in the process from one of examining applications bearing the burden of proof to show that claims do not deserve allowance to one of reviewing applications in which inventors bear the burden of proving patentability. There has not been a proper public debate about the merits of this fundamental policy change. While the courts have struck down as *ultra* vires the USPTO's attempts to accomplish this policy change by regulation, it is far from clear that the Office has abandoned the idea. Indeed, S. 23 (which the USPTO supports) would endow the Office with exactly the kind of authority it needs to accomplish this fundamental policy change without legislative approval.

Second, in order to accomplish this fundamental restructuring of the US patent system, the USPTO has systematically and egregiously violated or ignored several significant existing statutes and Executive branch administrative procedures. It has flouted Executive Order 12,866 (by evading applicable Regulatory Impact Analysis

[27] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf.

requirements), violated the Administrative Procedure Act (by claiming that its regulations are exempt), ignored the Regulatory Flexibility Act (by falsely leveraging the purported APA exemption), and cheated on the Paperwork Reduction Act (by taking advantage of applicants' apprehension about retaliation if they exercise their legal rights). With such an abysmal record, it is hardly obvious why Congress would think it wise to give the USPTO more regulatory authority.

Third, when presented with incontrovertible evidence of its procedural error, the USPTO has chosen to batten down the bureaucratic hatches in hopes of weathering the storm of criticism. The Office has ignored convincing evidence that its proposed regulations are economically significant under Executive Order 12866. It has been unwilling to even offer rebuttal when shown that these regulations would impose billions of dollars annually in new paperwork burdens. It has cynically forced private parties to spend substantial funds to litigate regulations it knew it had no authority to promulgate but could get a way with if no one sued. This is not the behavior of an agency that can be trusted with substantive rulemaking authority.

Fourth, the patent law reform legislation (S. 23) that the USPTO promises will reduce regulatory burdens appears as likely as not to increase them. Supporters generally do not herald the bill as a tool for regulatory reform. For example, the primary benefit claimed by the Obama administration is that it would reduce litigation.[28] Meanwhile, opponents of the bill specifically worry that its first-to-file provisions would generate more red tape and lead inventors to file multiple, premature and hasty applications in order to protect nascent intellectual property.[29] Perhaps most troubling, there are indications

[28] OFFICE OF MANAGEMENT AND BUDGET, *Statement of Administration Policy: S. 23--Patent Reform Act of 2011* (2011), http://www.whitehouse.gov/sites/default/files/omb/legislative/sap/112/saps23s_20110228.pdf. The SAP includes vague references to what might be construed as regulatory improvement (e.g., "the bill simplifies the process of acquiring rights," "improve service to patent applicants"), but these claims are contestable.

[29] See, for example, DAVID E. BOUNDY, *Guest Post: David Boundy on "Patent Reform" and A Call To Action To Defeat the America Invents Act; Appendix: How the America Invents Act Changes Patent Law* (2011),

that if the Patent Office were to gain the authority to set fees outside of the appropriations process, it would use this power to fundamentally change the number and character of patent applications submitted—that is, it would set fees in a discriminatory way to shape the direction of innovation in the United States.[30]

Finally, I am aware of nothing in S. 23 that arguably deals with the problem of obsolete, counterproductive, and wasteful existing regulation. It is highly inappropriate for the USPTO to claim otherwise in its Preliminary Plan without supplying substantial supporting evidence. The USPTO should not be using the Plan to "market" the purported value of pending legislation.

Dubious Recent Deregulatory Initiatives

The USPTO also touts a pair of recent initiatives said to "allow applicants greater control over the timing of patent examinations, and to allow USPTO to deploy its resources to better meet the needs of innovators."[31] Both initiatives have troubling aspects that are at odds with regulatory reform generally.

Green Technology Pilot Program (2009)[32]

The Preliminary Plan promotes the notion that applications pertaining to "green" technology should be advanced out of turn, as if this were an uncontroversial matter. In principle, if the Patent Office could rank applications based on their potential net social benefits,

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http://www.patentabilityblog.com/2011/04/27/guest-post-david-boundy-on-patent-reform-and-a-call-to-action-to-defeat-the-america-invents-act/.

[30] The USPTO already is doing this via the Prioritized Examination Track (Track I) of the Enhanced Examination Timing Control Procedures. See the discussion at page 12.

[31] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 15.

[32] U.S. PATENT AND TRADEMARK OFFICE, *Pilot Program for Green Technologies Including Greenhouse Gas Reduction; Notice.*, 74 Federal Register 64666 (2009).

that might be a fair way to allocate its examination resources.[33] But it is hardly obvious why "green" technology would place high in such a rank ordering.

Quite transparently, this program supports a White House political initiative that is at best orthogonal with the proper function of the Patent Office, which should be scrupulously neutral across technology centers. By allowing itself to be politicized this way, the USPTO creates new concern that its actions are motivated by politics, not the criteria established by Congress. The USPTO cannot manage a fair patent system if the Office believes that its role is to pick winners and losers, or if it lacks the courage to resist White House efforts to abuse its functions for that purpose.

"Enhanced" (i.e., Prioritized) Examination (2011)[34]

This initiative might be credibly characterized as deregulatory in the spirit of Executive Order 13563, but the case is not open-and-shut. First, prioritized examination will cost an applicant an additional $4,000; it's not even obvious that the actual benefits to the applicant will be worth the cost. Second, to conduct prioritized examination the USPTO must reallocate examination resources. This means the costs will be borne by others—in particular, by applicants who reside in the normal queue. Third, there is little evidence supporting the notion that it will actually cost the USPTO $4,000 more to conduct an early examination. That means the USPTO is actually engaging in extortion. It is expropriating to itself a share of the potential economic value of applications in the expedited queue.

[33] For purposes of this discussion, I assume that the USPTO has the statutory authority to make such distinctions as opposed to treating all applicants the same.

[34] U.S. PATENT AND TRADEMARK OFFICE, *Enhanced Examination Timing Control Initiative; Notice of Public Meeting; Request for Comments.*, 75 Federal Register 31763 (2010); U.S. PATENT AND TRADEMARK OFFICE, *Changes To Implement the Prioritized Examination Track (Track I) of the Enhanced Examination Timing Control Procedures; Final Rule*, 76 Federal Register 18399 (2011); U.S. PATENT AND TRADEMARK OFFICE, *Changes To Implement the Prioritized Examination Track (Track I) of the Enhanced Examination Timing Control Procedures; Notice of Proposed Rulemaking*, 76 Federal Register 6369 (2011).

Moreover, the procedures the Office used were deeply troubling. First, the Office followed an extraordinarily expedited schedule[35] that, ironically, conflicts with Executive Order 13563.[36] Second, as it has done so often, the Office failed to acknowledge that the proposed and final rules were virtually certain to be economically significant and thus warranted a Regulatory Impact Analysis.[37] Third, the USPTO (with the connivance of OMB) essentially ignored the rule's incremental information collection burdens.[38] Given the USPTO's history of procedural misconduct, it is troubling to see the Office cut corners yet again. Administrative procedures exist to establish order on which the public may confidently rely. Violating these procedures, because they arguably are not essential in this case, invites yet more future mischief.

Accountability

According to the Preliminary Plan:

[35] The NPRM was published in February, the deadline for public comments was in March, and the Final Rule was promulgated in April.

[36] EO 13563, 3821-3822. "To the extent feasible and permitted by law, each agency shall afford the public a meaningful opportunity to comment through the Internet on any proposed regulation, with a comment period that should generally be at least 60 days."

[37] A regulation is economically significant if, inter alia, it is likely to have $100 million in effects in any one year. A 2% change in paperwork burden alone is sufficient to exceed the $100 million threshold. For its part, OMB is an accessory to the Office's misconduct because it did not exercise its authority to designate these rules economically significant.

[38] Changes To Implement the Prioritized Examination Track (Track I) of the Enhanced Examination Timing Control Procedures; Notice of Proposed Rulemaking, 6376/1. "An applicant who wishes to participate in the program must submit a certification and request to participate in the prioritized examination program, preferably by using Form PTO/SB/424. The Office of Management and Budget (OMB) has determined that, under 5 CFR 1320.3(h), Form PTO/SB/424 does not collect 'information' within the meaning of the Paperwork Reduction Act of 1995. Therefore, this rule making does not impose additional collection requirements under the Paperwork Reduction Act which are subject to further review by OMB," emphasis added.

> USPTO has designated specific personnel to be responsible for implementing its retrospective review plan. These designated personnel will be independent from the personnel and offices within USPTO that are generally responsible for drafting and implementing regulations in order to ensure the independence of this retrospective review process. USPTO anticipates that its implementation of the USPTO preliminary retrospective review plan and designation of personnel with responsibility for that plan will foster an internal culture of retrospective analysis.[39]

I commend the Director for these management decisions. It is essential that specific individuals be held accountable for performance, and that they be independent of the program offices that are responsible for regulations that should be modified, rescinded, or replaced.

Vesting this responsibility with the Deputy General Counsel and the Solicitor should have the salutary effect of ensuring that future regulations observe all applicable administrative procedures and statutes. Similarly welcome is the commitment to provide these personnel additional training, particularly "additional training concerning rulemaking," where the performance of the Office of General Counsel has tended to be weak. The manner in which the USPTO skirted these procedures and laws to promulgate the prioritized examination track suggests that this training cannot be delivered too soon.

Missing from the Director's approach, however, is any assignment of responsibility for the crux of any program for retrospective analysis, which of course is … analysis. Lawyers have their uses, but objective regulatory analysis is not generally one of them. The USPTO needs a cadre of economists, statisticians, operations researchers, and other policy analysts. This cadre needs to be equipped with the skills and training sufficient to understand how markets for intellectual property actually work, the ability to

[39] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 21.

quantitatively model the examination process, and the capacity to sift through the mountain of data available to the Office to estimate the consequences of regulatory alternatives.

These are not tasks the Office of General Counsel can credibly perform. Unless the USPTO establishes sufficient analytic capacity, perhaps through the Office of the Chief Economist, the Patent Office can be expected to continue its longstanding practice of basing decisions on murky intuition and unfounded belief.

The Preliminary Plan says that the designated personnel will "direct the actual review of USPTO rules," "ensure the continual updating of the USPTO review plan," "review[] public comments," and "publish public comments as they are received and make available to the public both the results of USPTO's retrospective review under the plan and underlying data used in conducting that review." The public destination for all this is supposed to be "the portion of its webpage specifically devoted to its retrospective review plan."[40] Today, this page is a case study in bureaucratic anonymity. There is no point of contact, and it does not even include public comments submitted to the USPTO on its March 2011 notice and request for information.[41] If the Deputy General Counsel really is going to be responsible for managing this program, he is off to a slow start.

Scope of the Final Plan

The Preliminary plan identifies four factors the Office says it will use to set priorities for retrospective analysis:

- The impact of the specific regulation (including its financial impact on the economy and the number of people who are impacted by the regulation, both financially and in other ways)

[40] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 21-22.

[41] U.S. PATENT AND TRADEMARK OFFICE, *Look Back Plan: Plan for Retrospective Analysis of Existing Regulations* (2011), http://www.uspto.gov/ip/rules/lookback.jsp.

- The potential increase in benefits and/or potential decrease in costs that could be realized from revising the regulation
- Input from stakeholders on regulations to be reviewed (e.g., from public comments to be solicited on a continuous basis as well as periodic town hall meetings and/or roundtable discussions with the intellectual property community and other stakeholders)
- The length of time since the regulation was last reviewed (i.e., when other factors are equal, prioritizing review of a regulation that has gone the longest since it was last reviewed).[42]

Each of these criteria is sensible from a broad social welfare perspective.

Unfortunately, it appears that no one actually applied these factors to develop the Preliminary Plan. Having begun with a list of all rules "determined to be 'significant' within the meaning of E.O. 12866," the Office settled on a list that is at best uncorrelated with these factors and arguably has everything to do with delivering benefits to the USPTO. Indeed, the Preliminary plan confesses as much:

> These ten candidate rules were selected because they have significant impact on the day-to-day operations of USPTO and the high volume of patent applications it processes.[43]

Although there might be a nominal potential benefit to each individual applicant, the USPTO's clear focus is on reducing its own burdens.[44] Obviously missing from the short list is the regulation of restriction

[42] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 22.

[43] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 22.

[44] "Given the high volume of patent applications USPTO processes, improvements that result even in small reductions in cost for a single applicant could result in large aggregate reductions in cost." PDF 23.

practice, where the statute and rule (37 C.F.R. § 1.142) say one thing but the guidance actually implemented by the USPTO (MPEP § 803) says the opposite.[45]

Similarly, much of what ails the Office appears to reside within the conflict between what it is required to do by law (i.e., bear the burden of proof of nonpatentability in order to reject a claim) and what it would rather do (i.e., force applicants to prove patentability in order to obtain an allowance). If the Office truly believes that Rule 1.104 ought to be changed to shift the burden of proof, then this rule ought to be at the top of its short list.[46]

Indeed, there appears to be no correlation at all between the list of rules in the Preliminary Plan and the recommendations of public commenters on the March 2011 notice. For example, the American Bar Association Section on Intellectual Property Law (ABA-SIPL) identified more than a half dozen specific regulations that, in the judgment of its constituent committee, imposed excessive burden on the public as the Office implemented them. Only one of these rules made it onto the USPTO's Preliminary Plan (Rule 1.78). Reviewing the suggestions provided by other commenters shows that none of their suggestions made the short list, either.

There is one more area of concern related to the scope of the final Plan: timing. The Preliminary Plan suggests that the USPTO

[45] In 2010, the USPTO published what was essentially an Advance Notice of Proposed Rulemaking on restriction practice. See U.S. PATENT AND TRADEMARK OFFICE, *Request for Comments on Proposed Changes to Restriction Practice in Patent Applications*, 75 Federal Register 33584 (2010). The notice was clearly oriented in ways aimed at reducing the Office's own costs. In my comments, I specifically noted this interpretative conflict and pointed out that it was ripe for easy judicial challenge on both procedural and substantive grounds. See RICHARD B. BELZER, *Comments on Proposed Changes to Restriction Practice in Patent Applications, 75 Fed. Reg. 33584 [June 14, 2010]*, http://www.uspto.gov/patents/law/comments/belzer13aug2010.pdf. "The USPTO has done the opposite of what the statute and rule say. In the MPEP, the USPTO defines "independent and distinct" to mean "either independent or distinct."

[46] I surmise that Rule 1.104 is not on the USPTO's short list because the Office knows that its desire can only be achieved by legislation.

intends to take at least two years, and perhaps more, to actually make progress on retrospective analysis.[47] This is a considerably more leisurely pace than, say, the Office's promulgation of prioritized examination, which it accomplished in two months. It is reasonable to be concerned that regulatory analysis and presumptive subsequent reform will ultimately be bottled up in bureaucratic Limbo, safe from damnation but also without hope of salvation.

Conclusions

I am pleased to see that a number of the suggestions I provided in my March 2011 comments found their way into the USPTO's Preliminary Plan. There are other encouraging features in the document, including the clear assignment of organizational responsibility for performance.

Beyond that, the Preliminary plan appears to be yet another missed opportunity for the USPTO. For example, it lacks metrics that the public could use to evaluate the Deputy General Counsel's performance. Implicitly, the public can reasonably expect that OGC will utilize the long-overdue administrative law training it will finally receive, thus reducing the propensity of the Office to regulate in ways that are administratively suspect or illegal. Beyond that, however, it is hard to see how the public can ensure accountability.

Substantively, the Preliminary Plan shows a serious disconnect between the needs of the patent system and the Office's bureaucratic self-interest. There is virtually no correlation between the regulations the Office proposes to examine and the regulations public commenters recommended be addressed. The Preliminary Plan also includes no regulatory process reforms, suggesting that the Office did not get the message that its administrative practice has been persistently abysmal. The alternative explanation is much more disturbing—that the Office does not care about such matters, which if true also means

[47] U.S. DEPARTMENT OF COMMERCE, *Department of Commerce Preliminary Plan for Retrospective Analysis of Existing Rules*, http://www.whitehouse.gov/files/documents/2011-regulatory-action-plans/DepartmentofCommercePreliminaryRegulatoryReformPlan.pdf. PDF 23.

that its final Plan, whenever it is finally released, will have no positive effect.

Sincerely,

Richard B Belzer, PhD

RICHARD B BELZER PHD

April 14, 2011

Mr. Nicolas Oettinger
U.S. Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313–1450

Delivered by email: regulatory_review_comments@uspto.gov

Comments on "Improving Regulation and Regulatory Review; Request for information" (76 Fed. Reg. 15891)[1]

Dear Mr. Oettinger:

I am pleased that the U.S. Patent and Trademark Office (USPTO) is seeking information from the public concerning how best to implement President Obama's Executive Order 13563,[2] and happy to supply these comments to support that effort.

My comments are organized in three sections. First I address longstanding regulatory principles that President Obama has reiterated in his Order. Second, I comment on two new principles the President has now directed agencies (including the USPTO) to follow. Finally, I offer suggestions in response to each of the five specific questions posed by the Office in the Federal Register notice.

My general message is unambiguous and uncomplicated. The USPTO is a longstanding, serial violator of established regulatory principles. This is the product of a bureaucratic culture that treats presidential direction as interference, is adamantly opposed to basing regulatory decision-making on informed analysis, and has serious difficulty adhering to the rule of law. Each of these deficiencies is by itself a likely reason for bureaucratic failure, but in combination, they

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[1] U.S. PATENT AND TRADEMARK OFFICE, *Improving Regulation and Regulatory Review; Request for Information*, 76 Federal Register 15891 (2011).

[2] BARACK OBAMA, *Executive Order 13563: Improving Regulation and Regulatory Review*, 76 Federal Register 3821 (2011).

Regulation, Risk, Economics & Information Quality
Strategy & Analysis

rbbelzer@post.harvard.edu
PO Box 319
Mount Vernon, VA 22121
(703) 780-1850

make success virtually impossible. Correcting them requires a radical change in the organization's culture.

An important step forward would be for the Director to appoint a qualified individual charged with reforming the Office's culture and to delegate to this person both the responsibility and the authority to make it happen. Tasks would include replacing counterproductive existing internal systems with modern ones designed and implemented to ensure that the Office complies with statutory requirements (e.g., the Administrative Procedure Act, the Paperwork Reduction Act, and the Regulatory Flexibility Act[3]) and presidential directives (e.g., Executive Orders 12866 and 13563, OMB's Bulletin for Good Guidance Practices, OMB's Information Quality Guidelines, and OMB Circular A-4[4]). Systems need to be established to ensure that rule-writing staff do not backslide at a later date. At a minimum, a number of personnel reassignments no doubt would be necessary.

LONGSTANDING REGULATORY PRINCIPLES

First, the President reiterated several fundamental regulatory principles that have been in place since at least 1993. Restated in bullet form, they are:

1. Our regulatory system must protect public health, welfare, safety, and our environment while promoting economic growth, innovation, competitiveness, and job creation.
2. Our regulatory system must be based on the best available science.
3. Our regulatory system must allow for public participation and an open exchange of ideas.
4. Our regulatory system must promote predictability and reduce uncertainty.

[3] 5 U.S.C. § 551 and 553; 5 U.S.C. §§ 601-612; 44 U.S.C §§ 3501-3520.

[4] WILLIAM J. CLINTON, *Executive Order 12866--Regulatory Planning and Review*, 58 Federal Register 51735 (1993); EO 13563; OFFICE OF MANAGEMENT AND BUDGET, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication*, 67 Federal Register (2002); OFFICE OF MANAGEMENT AND BUDGET, *Final Bulletin for Good Guidance Practices*, 72 Federal Register 3432 (2007).

rbbelzer@post.harvard.edu

5. Our regulatory system must identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends.
6. Our regulatory system must take into account benefits and costs, both quantitative and qualitative.
7. Our regulatory system must ensure that regulations are accessible, consistent, written in plain language, and easy to understand.
8. Our regulatory system must measure, and seek to improve, the actual results of regulatory requirements.[5]

As a regular commenter on recent USPTO proposals and information collection requests, it is clear to me that the Office has had trouble incorporating these principles into its regulatory development processes. The specific questions on which the Office now seeks comment are important, to be sure, but they presume a counterfactual level of familiarity with and commitment to longstanding regulatory development principles and practices. Before the USPTO can effectively manage the new responsibilities the President has given it, the Office must actually make a habit of adhering to these longstanding principles. To do otherwise is to put the cart before the horse.

The starting point, of course, is compliance with the Administrative Procedure Act. This is an unusual problem in two respects. First, the USPTO is one of few Federal agencies that claim that their rulemaking actions are exempt. Second, the USPTO is a major violator of the APA insofar as it issues the vast majority of its regulations in the form of guidance. The Office succeeds because few persons with standing to challenge these violations are willing to risk its retaliation.

In the proposed regulations I have reviewed, the USPTO has not displayed much familiarity with or interest in the normal tools of regulatory policy analysis that have been used widely by Federal agencies for more than 30 years.

1. "Promoting economic growth, innovation, competitiveness, and job creation"

[5] Paraphrased from EO 13563, Section 1(a).

rbbelzer@post.harvard.edu

To balance competing regulatory interests and goals, including the promotion of economic growth, innovation, competitiveness, and job creation, agencies must institutionalize a program of regulatory impact analysis. But the USPTO does not have such a program, and it has never performed a Regulatory Impact Analysis.

2. "Best available science"

Before an agency's regulations can "be based on the best available science," it must devote significant resources to obtaining such information and ensuring that it meets high information quality standards. The USPTO is fortunate insofar as it is a data-rich agency in many respects, but its recent regulatory actions do not show that it actually utilizes these data effectively.

3. "Allow for public participation and an open exchange of ideas"

The USPTO is poorly positioned to understand the external burdens and economic effects of its regulations and guidance, yet its culture does not welcome the "public participation and an open exchange of ideas" necessary to find out. Effecting cultural change is perhaps the most difficult management task any organization's leaders must accomplish, and given that the USPTO's culture displays such fervent resistance, there is no gainsaying how hard this could be to accomplish.

4. "Promote predictability and reduce uncertainty"

A routine complaint made by the USPTO's customers is that its regulations and guidance do not "promote predictability and reduce uncertainty," but instead often do the opposite. These deficits are magnified when the Office declines to supervise examiners who unilaterally deviate from established rules, guidance, and procedures.

5. "Identify and use the best, most innovative, and least burdensome tools for achieving regulatory ends"

Recent regulatory proposals have not even sought to identify, much less implement, the "best, most innovative, and least burdensome tools for achieving regulatory ends." Rather, they have sought to export to applicants as much as possible of the burden of examination, while simultaneously refusing to account for these burden-shifts in accompanying Information Collection Requests. It has become the USPTO's practice to concern itself only with its own costs

and give little or no attention to the burdens it imposes on its customers, who after all, have nowhere else to go to obtain a U.S. patent.[6] The vast majority of burdens the USPTO imposes appear to be illegal, having no valid OMB Control Numbers as required by the Paperwork Reduction Act.

6. "Take into account benefits and costs"

Before an agency can "take into account benefits and costs, both quantitative and qualitative," it must make a reasonable effort to estimate them. The USPTO has an established practice of not performing regulatory analysis, instead simply assuming that the benefits of its regulatory proposals are obvious and the costs are either negligible or unimportant. In my reviews of USPTO proposed regulations and guidance, I have not encountered a single instance in which the Office even considered the possibility that its actions could have unintended, adverse effects on innovation and competitiveness—a notably ironic result given the centrality of these factors in the agency's mission.

7. "Ensure that regulations are accessible, consistent, written in plain language, and easy to understand"

The USPTO does a generally excellent job making its regulations accessible, but consistency and comprehensibility have often taken a back seat to other goals, such as maximizing the Office's ad hoc interpretative discretion. Sometimes, as in the case of the USPTO's use of an undisclosed internal memorandum modifying restriction practice, the contrast between its generally transparent practices and its occasional lapses into authoritarian secrecy are starkly evident.[7] USPTO leadership seem to lack effective management tools to prevent these lapses, or even to ameliorate them after the fact.

8. "Measure, and seek to improve, the actual results of regulatory requirements"

[6] The standard economic model of monopoly explains the USPTO's performance. It produces suboptimal quantity at a superoptimal price, and fritters away the rents. *See* Chapter 4 in W. KIP. VISCUSI, et al., Economics of Regulation and Antitrust (MIT Press 2nd ed. 1997).

[7] JOHN LOVE, *Changes to Restriction form paragraphs* (U.S. Patent and Trademark Office 2007).

rbbelzer@post.harvard.edu

To be sure, no Federal agency is highly enthusiastic about conducting ex post analysis of the effects of regulation to ascertain what really happened, for there is a significant risk that the results will not be pleasant. In this regard, the USPTO is not appreciably different from its sister agencies. What distinguishes the USPTO from other agencies is the wealth of data it has available that could be utilized to measure regulatory performance and quickly discover unintended effects.

In sum, the primary impediment facing the USPTO in implementing President Obama's 2011 Executive Order on regulation is that it hasn't yet implemented President Clinton's 1993 Executive Order on regulation. The Office's willful and persistent evasion of the 1993 directive has spanned multiple presidencies and numerous Patent Office Directors, so it cannot be remedied overnight. What could be remedied quickly is the Office's cultural expectation that it is tacitly exempt from these requirements.

As suggested above, the Director could accomplish this by appointing a specific individual to ensure that the Office fully complies with these longstanding regulatory principles. Such an appointment must include a delegation of bureaucratic authority commensurate with the responsibility. To ensure that the management reform outlives the tenure of the person assigned to establish and initially implement it, and that the bureaucracy does not return to its old ways, the Director must establish systems whereby the USPTO's customers can enforce Office compliance. One way to do this is to amend the rules making departures from administrative practice expressly petitionable. Another is to amend the Office's Information Quality Guidelines[8] to expressly create a right of action whereby affected persons could contest defects in transparency and reproducibility unresolved by the internal administrative error correction process.

NEW REGULATORY PRINCIPLES

Second, President Obama announced two very important new principles for regulation. They are paraphrased in bullet form below,

[8] *See* U.S. PATENT AND TRADEMARK OFFICE, *Information Quality Guidelines* (2002), at http://www.uspto.gov/products/cis/infoqualityguide.jsp.

rbbelzer@post.harvard.edu

with comments interspersed explaining why they are relevant to the USPTO.

9. Each agency shall ensure the objectivity of any scientific and technological information and processes used to support the agency's regulatory actions.[9]

Superficially, it might seem that the directive on scientific integrity does not apply to the USPTO. This is a cramped reading of the Executive Order. In the context of regulatory development, it means that the USPTO has an obligation to ensure the clarity, accuracy, and unbiasedness of all technical, statistical, and economic information it disseminates and utilizes in support of regulation.

Whereas the USPTO's historic practice has been to limit its disclosures to summary information supporting its predetermined goals, the Office now must open up its databases to the public. Whereas the USPTO's historic practice has been to spin the information it does disclose in unreasonably favorable terms, the Office now must refrain from injecting policy biases into its characterizations of the problems it intends to address by regulation and in its descriptions of the likely consequences of these actions. Regulatory analysis is supposed to be a tool for informing decision-making, not justifying decisions that have already been made.

10. Regulations shall be adopted through a process that involves public participation and based on the open exchange of information and perspectives.[10]

President Obama's directive on "open exchange" is elucidated more clearly in an implementation memorandum sent to all agency heads by Cass Sunstein, the Administrator of OMB's Office of Information and Regulatory Affairs. Administrator Sunstein explains what President Obama means by "open exchange":

> In this context, "open exchange" refers to a process in which the views and information provided by participants are made public to the extent feasible, and before decisions are actually made. Section 2 [of the Executive Order] thus seeks to increase

[9] Paraphrased from EO 13563, Section 5.

[10] Paraphrased from EO 13563, Section 2.

rbbelzer@post.harvard.edu

> participation in the regulatory process by allowing interested parties the opportunity to react to (and benefit from) the comments, arguments, and information of others during the rulemaking process itself. In this way, Section 2 is designed to foster better and more informed agency decisions.
>
> This provision is not satisfied simply through the acceptance of electronic submission of rulemaking comments by interested parties who lack information about the arguments and information provided by other parties.[11]

In short, the USPTO must (a) make all relevant information public, (b) make it public early, (c) and make it public in such a fashion that a genuine dialogue amongst interested parties is both feasible and fostered. This is fundamentally different from the Office's longstanding practices—practices that, ironically, it follows even in this notice![12]

Inexplicably, the USPTO's Federal Register notice does not even mention the Sunstein Memorandum, leaving most potential commenters utterly clueless and thus unable to respond effectively. This is, of course, an excellent way to limit the quantity and quality of public comment, thereby creating the misimpression that there is little or no interest among the USPTO's constituents in the reforms President Obama has mandated. Given the Office's well-documented cultural aversion to public participation, many will infer that the misimpression was intentional.

The second new regulatory principle continues by reminding agencies of existing procedural requirements:

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[11] CASS R. SUNSTEIN, *Memorandum for the Heads of Executive Departments and Agnecies, and of Independent Regulatory Agencies: Executive Order 13563, "Improving Regulation and Regulatory Review"*, Office of Management and Budget (2011), at http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-10.pdf.

[12] "All comments will be available for public inspection upon request at the Office of the Commissioner for Patents, located in Madison East, Tenth Floor, 600 Dulany Street, Alexandria, Virginia, and will be available on the USPTO Web site at http://www.uspto.gov. All comments submitted through the Federal eRulemaking Portal will be made publicly available on that Web site." *See* Improving Regulation and Regulatory Review; Request for Information, p. 15892. Access will be non-interactive and too late to permit, much less foster, dialogue amongst interested parties.

rbbelzer@post.harvard.edu

10 (cont'd). To promote that open exchange, each agency shall:

a. provide the public with an opportunity to participate in the regulatory process;

b. afford the public a meaningful opportunity to comment through the Internet on any proposed regulation, with a comment period that should generally be at least 60 days;

c. for both proposed and final rules, provide timely online access to the rulemaking docket on regulations.gov, including relevant scientific and technical findings, in an open format that can be easily searched and downloaded; and

d. for proposed rules, provide an opportunity for public comment on all pertinent parts of the rulemaking docket, including relevant scientific and technical findings.[13]

On the last three of these requirements, the USPTO's practices are usually deficient. First, the Office often allows only 30 days to comment, as it has done for this notice.

Second, the USPTO is parsimonious in its disclosure of relevant information related to a regulatory proposal. This is especially so in the case of the regulations it issues via the dubious method of guidance (e.g., amendments to the MPEP). I am aware of several instances in which members of the public have, out of frustration with the USPTO's niggardly disclosure practices, resorted to Freedom of Information Act requests in an attempt to pry loose information that should have been routinely disclosed as part of a proposed rule. The Office's responses have been dilatory and abusive, often demanding thousands of dollars for the production of readily available electronic documents that ought to have been provided as a matter of normal and proper administrative practice.

Third, the incentive for the public to engage an agency through public comment depends on its expectation that the agency will take its comments seriously. On this margin, the USPTO fares poorly. The Office has an aversion to responding cogently to the public comments it receives, particularly if they address information that was not part of

[13] Paraphrased from EO 13563, Section 2(b).

rbbelzer@post.harvard.edu

the Office's limited voluntary disclosure. In my reviews, I have noticed that the USPTO often reframes comments in unrecognizable ways, then responds only to its reframed comment. I have frequently noticed that the USPTO simply ignores comments that it apparently finds inconvenient to address. And the USPTO's most common response to an unsupportive comment is a simple refusal to engage. The Office merely says that it disagrees with the commenter; that it has well-founded beliefs that justify this disagreement; and that it declines to disclose or document these well-founded beliefs in any way that might permit accountability.

If the Director were to appoint an official to be responsible for compliance with administrative rules and procedures, it would be simple to change internal incentives so as to correct these persistent defects. The official could require full public disclosure as a prerequisite for the Director's signature, and act as the Office's point of contact should any member of the public identify information that ought to have been disclosed but was withheld. The official could require response-to-comment documents be structured so that it is easy to crosswalk each significant comment with the staff's reply. As Administrator Sunstein notes:

> A central goal of public participation is to improve the content of rules, and open exchanges of information by interested parties can be helpful in that endeavor.

That goal cannot be achieved if agencies refuse to take public participation seriously.

SPECIFIC REQUESTS FOR COMMENT

In its request, the USPTO asks five specific questions. Each is reprinted below with suggestions concerning how the Office ought to proceed.

1. What is the best way for the Office to identify which of its significant regulations should be modified, streamlined, expanded, or repealed? What process should the Office use to select rules for review and how should it prioritize such review?

The best way to <u>start</u> identifying areas that need regulatory reform is to focus on those which have been the subject of complaints

by applicants and counsel. These complaints will have several flavors. Some will be about absolute or relative burden; e.g., a specific regulatory requirement requires much more time and expense than the USPTO realizes, or disproportionate burden relative to its marginal contribution to the examination task. Other complaints will be much more substantive; e.g., examiners fail to follow MPEP guidance that is nondiscretionary, imposing additional regulatory requirements on their own authority, or applying rules and guidance unpredictably, inconsistently, or punitively.

Some complaints will have been memorialized in petitions, public comments, and similar communications initiated by the public. Thus, an obvious starting point is to review these petitions and other communications. Such a review must be conducted independently of the offices that managed them initially; asking them to review their own work is a clear conflict of interest.

Other public complaints presumably would be available in reports published by professional associations and comments on patent law blogs (including, to a lesser extent, the Director's own blog). Social media have become the predominant form of interactive communication, and of course they are the most likely model for "open exchange" of the form envisioned by the President.

A final source of information is problem reports made by examiners to their supervisors. If the Office does not have such informal reports, then it has not been monitoring the work of the examination corps very closely. An that case, it would have to survey a representative sample of applicants.[14]

Setting priorities for regulatory reform is admittedly a more complex task. Nonetheless, some approaches can be ruled out. The Office must avoid any approach that ranks alternatives in accordance with their potential cost savings to the USPTO, or some other internal metric such as pendency for its own sake. As noted above, the Office

[14] Surveys must be performed in compliance with the Paperwork Reduction Act and government-wide guidelines for statistical surveys. *See* OFFICE OF MANAGEMENT AND BUDGET, *Standards and Guidelines for Statistical Surveys*, Office of Management and Budget (2006), at http://www.whitehouse.gov/sites/default/files/omb/assets/omb/inforeg/statpolicy/standards_stat_surveys.pdf.

rbbelzer@post.harvard.edu

has displayed a near fetish for reducing its own costs without regard for the effects of these actions on applicants or on the broader social goals that the USPTO exists to advance. Similarly, the Office must not rank regulatory reform opportunities based on legislative ambitions, or misuse the President's directive to promote its legislative agenda. That could backfire at both ends of Pennsylvania Avenue.

Given the regulatory principles stated in President Clinton's 1993 Executive Order, now reiterated by President Obama, an appropriate way to rank alternative regulatory reform opportunities is in terms of their marginal net social benefit. This ranking should be performed two ways: (a) an unrestricted ranking that does not take account of expenditures by the USPTO that would be required to manage regulatory reform; and (b) constrained by a dollar-denominated resource commitment established by the Director for expenditures on regulatory reform activities. The latter ranking would reveal which reform opportunities the USPTO can accomplish within its current budget; the former ranking would identify for the President and the Congress what additional regulatory reform it could obtain if additional funds were appropriated.

2. What can the Office, relative to its regulation process, do to reduce burdens and maintain flexibility for the public while promoting its missions?

To develop a program aimed at reducing burdens and costs on the public, the USPTO must first produce comprehensive and objective estimates of burdens and costs under existing law and guidance. The Office routinely misclassifies its economically significant regulatory actions and thereby evades the requirement to conduct Regulatory Impact Analyses.[15] On at least two recent occasions, the USPTO has designated billion-dollar regulations as "not significant."[16]

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[15] *See*, e.g., RICHARD B. BELZER, *Cost of Complying with the Proposed IDS Rule; Meeting at OMB, October 18, 2007* (2007), at http://www.whitehouse.gov/omb/oira_0651_meetings_663; RICHARD B. BELZER, *Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs [October 26, 2007]* (2007), at http://www.whitehouse.gov/omb/assets/omb/oira/0651/comments/478.pdf; RICHARD B. BELZER, *Letter to Nicholas A. Fraser, Desk Officer for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs, Office of Management and Budget RE: ICR 0651-00xx ["October 14th ICR Comment"]* (2008), at

rbbelzer@post.harvard.edu

For this reason, responding constructively to President Obama's directive will require a radical change in USPTO culture. For a start, this means designating by default every proposed regulation as economically significant, as that term is defined in Section 3(f)(1) of President Clinton's 1993 Executive Order, and budgeting for the time and expense of a Regulatory Impact Analysis. Only if it can be shown persuasively that a proposed regulation or guidance is not economically significant should this presumption be rescinded.[17]

As I have shown in previous public comments to the USPTO, virtually every Office regulatory action has effects that plausibly exceed the threshold for economic significance if it increases paperwork burden by about 2%.[18] This is much less than uncertainties

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http://www.reginfo.gov/public/do/DownloadDocument?documentID=90554&version=1; RICHARD B. BELZER, *Letter to Nicholas A. Fraser, Desk Officer for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs, Office of Management and Budget RE: ICR 0651-00xx: ICs and Burden Estimates ["November 17th ICR Comment"]* (2008), at http://www.reginfo.gov/public/do/DownloadDocument?documentID=93894&version=1; RICHARD B. BELZER, *Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget RE ICR 0651-0031* (2008), at http://www.reginfo.gov/public/do/DownloadDocument?documentID=57744&version=1.

[16] U.S. PATENT AND TRADEMARK OFFICE, *Examination of Patent Applications That Include Claims Containing Alternative Language; Proposed Rule [0651-AC00]*, 72 Federal Register 44992 (2007); U.S. PATENT AND TRADEMARK OFFICE, *Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Proposed Rule [0651-AC12]*, 72 Federal Register 41472 (2007).

[17] A reasonable approach is to designate every draft proposed or final rule as economically significant unless the Administrator of the Office of Information and Regulatory Affairs directs the USPTO in writing to lower the classification.

[18] RICHARD B. BELZER, *Public Comment on Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Notice of Proposed Rulemaking (RIN 0651–AC37; Docket ID PTO–P–2009–002, ICR Reference Number 201010--0651--001, 75 FR 69,828); and Error Correction Request submitted pursuant to USPTO's Information Quality Guidelines* (2011), at http://www.uspto.gov/ip/boards/bpai/procedures/rules/rule_comment_nov2010_belzer.pdf.

rbbelzer@post.harvard.edu

in the Office's current burden estimates and it is dwarfed by known errors in these estimates.[19]

To reduce paperwork burdens on the public the USPTO must first correctly estimate the burdens of its existing information collections. Current USPTO burden estimation practices are substandard, and the Office is unresponsive to public comments that say so. USPTO has no comprehensive inventory of its information collections and it ignores the information collection burdens created by the MPEP. Over a year ago, the Office sought comment on a proposed revision to its burden estimation methodology. Nothing apparently has come of this effort.

The USPTO is well aware of the requirement to perform Regulatory Impact Analysis and OMB's guidance explaining how to do so. The USPTO also is well aware of its statutory obligation under the Paperwork Reduction Act to objectively estimate burden. The Office simply has refused to comply with these statutory requirements and presidential directives. Correcting this state of affairs will require a radical cultural change, something only the Director has the authority to mandate.

3. How can the Office ensure that its significant regulations promote innovation and competition in the most effective and least burdensome way? How can these Office regulations be improved to accomplish this?

The purpose of performing economic analysis, as required by President Clinton's 1993 Executive Order, is to identify and compare an array of reasonable regulatory and nonregulatory alternatives and objectively estimate their costs, benefits, and other effects such as innovation and competition. As noted above, however, the USPTO has an established culture that rejects the principal that regulatory analysis might usefully inform decision-making. Thus, the Office's regulatory decisions are grounded more ethereally, most notably on the intuition and opinions of its senior staff. What informs their intuition and opinions, however, is anybody's guess.

This means the USPTO has two logical paths whereby its regulations might be improved so as to promote innovation and

[19] The USPTO understates paperwork burden by about 12% just by using a median rather than a mean value for the "average" cost of attorney time.

rbbelzer@post.harvard.edu

competition in the most effective and least burdensome way. The first path involves establishing an effective program of regulatory impact analysis, as has been required of all federal agencies since 1981. The other path involves replacing the Office's senior staff with individuals, who by dint of clairvoyance or superior intellect, happen to have better intuition and more informed opinions.

4. Are there USPTO regulations that conflict with, or are duplicative of, regulations from other agencies? If so, please identify any such rules and provide any suggestions you might have for how this conflict or duplication can be resolved in order to help the Office achieve its mission more effectively.

As an analyst who is not an inventor or a registered patent attorney, I am unable to provide specific examples of possible interagency conflicts or duplications. Nonetheless, I am confident based on more than 25 years of experience performing and reviewing Regulatory Impact Analyses that such conflicts and duplications are much more likely to be discovered when rigorous analysis is performed. The absence of evidence that such conflicts exist is not evidence that they are absent, just the predictable result of failing to investigate.

5. How can the Office best encourage public participation in its rule making process? How can the Office best provide a forum for the open exchange of ideas among the Office, the intellectual property community, and the public in general?

In addition to recommendations made above, I have two concrete suggestions for how the USPTO could implement President Obama's principle of open exchange.

First, the Office could establish a social media portal to foster discussion, develop ideas, and share information relevant to the regulatory process. The technology for this is in widespread use in the private sector. To achieve open exchange, such a portal must expressly permit public interaction without mediation or supervision by USPTO staff.[20]

[20] The USPTO should retain, and exercise prudently, the responsibility for removing comments that violate established netiquette principles.

rbbelzer@post.harvard.edu

The portal must provide the public with direct, unencumbered access to all relevant data, models, and analyses under the Office's control that could be useful for informing discussion and identifying problems that might warrant regulatory solutions. To make this work, the USPTO also should actively participate in the discussion and must utilize the information it generates. The Office's customers will invest in open exchange only to the extent that they perceive that the Office is takes it seriously.

Second, the Office could use the Paperwork Reduction Act as an instrument for informing regulatory decision-making rather than treating it as a nuisance. The PRA process is supposed to be public and transparent, so it provides a valuable setting in which to discuss regulatory alternatives and identify data that could inform the estimation of costs, benefits, and other effects. Where data gaps are discovered that impede good analysis, the PRA provides the legal machinery for devising data collection protocols and obtaining the necessary clearances. By utilizing the Paperwork Act intentionally, the USPTO can reduce conflict and controversy and expedite both the analytic process and the regulatory development timeline.

Sincerely yours,

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