Time to Turn the US Rejection Office Back into the US Patent Office – Part 1

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In 2024, the Sunwater Institute's study <u>Patent Quality in the United States, Findings and Suggestions</u> for <u>Policy Makers</u>, determined that

- 7% of patented claims allowed should have been rejected, and
- 18% of the rejected claims were improperly rejected.

This outcome was observed in groups that examined chemical, mechanical, telecommunications, computer and electronical technologies. From the Sunwater Institute report, it can be estimated that TC3600 improperly rejects 15% of claims directed to electric vehicles, drones, and aeronautics, TC2800 improperly rejects 21% of semiconductor claims and TC2100 improperly rejects 21% of claims directed to artificial intelligence. Technology Center (TC) 2400 examines computer networks, multiplex communications and cryptography/security, including quantum technologies, with an alarmingly high rejection error rate of 30%. **Figure 1**.

Figure 1. Technology Center Breakdown of Patent Quality Results



from the Sunwater Institute

Type 1 errors (in blue) refer to improperly allowed claims.

Type 2 errors (in red) refer to improperly rejected claims.

While the USPTO squelches innovation by improperly rejecting 18% of patent claims, China is nearing a monopoly risk for advancement in 57 of the 64 <u>critical technological areas</u> including:

- mesh and infrastructure independent networks
- protective cybersecurity technologies
- post-quantum cryptology
- quantum communications and others

Rejection-skewed results cannot come as a surprise to USPTO officials. This pattern – bluntly summarized as twice as many bad rejections as bad allowances – has been detected by the agency's annual Office of Patent Quality Assurance (OPQA) assessments. In Fiscal Year (FY) 2024, OPQA reported:

- 8% of surveyed allowances had claims which should have been rejected under 35 USC 101, 102, 103 or 112 and
- 18.1% of surveyed final rejections were not in compliant with the statutes.

Compliance of Office Actions				12	5	
	Action Type Reviewed	No (count)	Yes (count)	Total (count)	% No	% Yes
			10		11 I.I.	
Was office action compliant under all statutes?	Allowance	337	3,864	4,201	8.0%	92.0%
	Final Rejection	455	2,058	2,513	18.1%	81.9%
	Non-Final Rejection	1,094	4,233	5,327	20.5%	79.5%
	Total	1,886	10,155	12,041	15.7%	84.3%

Figure 2. USPTO Office of Patent Quality Assurance Survey Results FY2024

The two independent surveys were conducted by different entities using different samples and methodologies. OPQA audited a random sample of 12,041 office actions prepared in 2024 which contained a mix of non-final rejections, final rejections and notice of allowances for compliance with the statutes. The Sunwater Institute measured <u>"low quality" patents</u> by analyzing "55 million patent applications claim decisions covering 20 million independent claims on approximately 980,000 patent applications filed between 2011-2013" in three ways:

- the overall pool of patent applications
- a sample of patent applications and
- patent applications that had been submitted to multiple international offices.

Despite different methodologies, both surveys reported strikingly similar results. Figure 3.

Figure 3. The USPTO is Twice as Likely to

Improperly Reject Claims than to Improperly Allow Rejectable Claims



Disproportionally mis-rejecting more claims than mis-allowing claims <u>points</u> to "systemic issues and highlights the need for data-driven policymaking." The Council for Innovation Promotion (C4IP) <u>has</u> <u>urged for</u> increased publication of USPTO's quality data to allow for more research.

Taking a Closer Look at OPQA's Data

Before gathering more data to create new policies, let's take a closer look at OPQA's FY2024 results in view of current examination guidance.

Identifying allowable subject matter is the most efficient way to avoid improper rejections. We know most patent applications contain allowable subject matter, as evidenced by the USPTO's overall <u>80%</u> <u>allowance rate</u>. Manual of Patent Examining Procedures (MPEP) 707.07(c) instructs examiners "as a part of the first Office action on the merits, [to] identify any claims which he or she judges, as presently recited, to be allowable and/or should suggest any way in which he or she considers that rejected claims may be amended to make them allowable."

Yet OPQA found that examiners only identify allowable subject matter in 20.3% and 27.7% of the surveyed final and non-final Office actions, respectively. **Figure 4.**

Figure 4. OPQA Asks "Did Examiner Indicated Allowable Subject Matter?"

Allowable Subject Matter								
Did the examiner indicate allowable subject matter?	Action Type Reviewed	No (count)	Yes (count)	Total (count)	% No	%Yes		
	Allowance		3,789	3,789	0.0%	100.0%		
	Final Rejection	1,970	501	2,471	79.7%	20.3%		
	Non-Final Rejection	3,692	1,415	5,107	72.3%	27.7%		
10	Total	5,662	5,705	11,367	49.8%	50.2%		

One a more granular level, "[w]henever practicable, examiners and patent reexamination specialists should indicate how rejections may be overcome and how problems may be resolved." MPEP 2103(I). OPQA reports that examiners fail to provide appropriate suggestions to overcome

- 99.8% of the anticipation rejections
- 99.9% of the obviousness rejections
- 94.6% of the enablement rejections
- 98.1% of the written description rejections and
- 95.5% of the subject matter eligibility rejections.

With no clear signal as to what might be allowed or how to overcome a rejection, attorneys and examiners are mired in inefficient exchanges. On the whole, the USPTO's 2024 data expose an examining corps that does not generally look for ways to allow patent applications. This is not new behavior. Sunwater Institute's survey indicates a rejection-biased approach existed for applications filed in 2011-2013.

A rejection-weighted examination system disproportionally affects independent inventors and startups who haven't resources to engage in multiple rounds of prosecution and yet are eager to quickly monetize their patented products.

How did we get here?

The Patent Examiners' Performance and Appraisal Plan (PAP) Drives Examiner Behaviors

Let's roll the clock back to 1995. While the USPTO <u>was implementing</u> the General Agreement on Tariffs and Trade ("GATT") Uruguay Round legislation, my former mentor, Primary Examiner Robert Budens, proudly tacked a modified poster of USPTO official seal on his office door. Using a black marker, he amended "US Patent and Trademarks Office" to read "US Patent and Trademark Rejection Office." This graphic aptly illustrated his strategy to avoid issuing any poor-quality claims. Wryly quipping "the only good claim is a rejected claim," Examiner Budens seemed to reject everything. He went on to serve as President of the Patent Office Professional Association from 2005 – 2015. In 2010, under former Director Kappos' tenure, USPTO management and POPA officials, including President Budens, <u>worked closely together</u> to revise the count system and patent examiners' performance and appraisal plan (PAP). The <u>2010 PAP and award scheme</u> focused examiner attention on:

- pendency (docket management), with an annual award of 1.5% to 4% of total salary
- production, with an annual gainsharing award of 2% to 7% of total salary, and
- more production, with an annual special achievement award of up to 3% of total salary

OPM allows agencies full <u>discretion</u> for granting employees lump-sum cash bonuses up to 20% of their annual salary for exceptional performance. Seasoned primary examiners who strictly follow the PAP requirements routinely receive up to \$25,000 in annual cash bonuses, paid for out of inventor user fees.

With no bonuses specific for high quality work, the incentive structure rewards volume and speed. This is at odds with the USPTO's <u>mission</u> to drive U.S. innovation and global competitiveness for the benefit of Americans.

Part 2 explores the anti-innovation disconnect between the examiners' incentive plans and the MPEP's "<u>instructions to examiners</u>, and other material in the nature of information and interpretation, and outlines the current procedures which the examiners are required or authorized to follow in appropriate cases in the normal examination of a patent application."

