June 17, 2002

The Honorable Anne Chasser
Commissioner for Trademarks
U.S. Patent and Trademark Office
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Arlington, VA 22202-3513
Attn: Craig Morris
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Re: Processing Fee for Use of Paper Forms for Submission of Applications for Registration and other Documents

Dear Commissioner Chasser:

By way of introduction, Congress established the Office of Advocacy of the U.S. Small Business Administration (SBA) under Pub. L. No. 94-305 to represent the views of small business before Federal agencies and Congress. Advocacy is also required by Section 612 of the Regulatory Flexibility Act (RFA) (5 U.S.C.§§601-612) to monitor agency compliance with the RFA. In 1996, Congress enacted the Small Business Regulatory Enforcement Fairness Act which made a number of significant changes to the Regulatory Flexibility Act, the most significant being provisions to allow judicial review of agencies' regulatory flexibility analyses.

On May 17, 2002, the United States Patent and Trademark Office (USPTO) published a proposed rule in the Federal Register, Vol. 67, p. 35081 on *Processing Fee for Use of Paper Forms for Submission of Applications for Registration and Other Documents*. The proposal amends the USPTO rules to require payment of a $50.00 paper processing fee when a party submits a paper document instead of an electronically transmittable form if an electronic form is available on the Trademark Electronic Application System (TEAS). USPTO asserts that the $50.00 processing fee reflects the additional average cost of processing a paper document rather than an electronic document within the Trademark Operation.

In the proposal, USPTO certifies that the proposal will not have a significant economic impact on a substantial number of small entities. The Office of Advocacy asserts that the certification does not comply with the requirements of the RFA.

The Proposal Does Not Comply with the Requirements of the RFA

The RFA requires administrative agencies to consider the effect of their actions on small entities, including small businesses, small non-profit enterprises, and small local governments. 5 U.S.C.

§§ 601, et. seq.; Northwest Mining Association v. Babbitt, 5 F. Supp. 2d 9, (D.D.C. 1998). When an agency issues a rulemaking proposal, the RFA requires the agency to "prepare and make available for public comment an initial regulatory flexibility analysis [IRFA]" which will "describe the impact of the proposed rule on small entities." 5 U.S.C. § 603(a); *Id.*

The law clearly states that an IRFA shall address the reasons that an agency is considering the action; the objectives and legal basis of the rule; the type and number of small entities to which the rule will apply; the projected reporting, record keeping, and other compliance requirements of the proposed rule; and all Federal rules that may duplicate, overlap or conflict with the proposed rule. The agency must also provide a description of any significant alternatives to the proposed rule which accomplish the stated objectives of applicable statutes and which minimize any significant economic impact of the proposed rule on small entities. 5 U.S.C. § 603(c).

Section 605 of the RFA allows an agency to certify a rule, in lieu of preparing an IRFA, if the proposed rulemaking is not expected to have a significant economic impact on a substantial number of small entities. If the head of the agency makes such a certification, the agency shall publish such a certification in the Federal Register at the time of the publication of the general notice of proposed rulemaking along with a statement providing the factual basis for the certification.

USPTO Failed to Provide a Factual Basis for the Certification as Required by the RFA

In the proposed rule, the USPTO opted to certify the rule in lieu of preparing an IRFA. The certification states:

> "The Chief Counsel for regulation of the Department of Commerce has certified to the Chief Counsel of Advocacy of the Small Business Administration, that the proposed rule changes will not have a significant impact on a substantial number of small entities (Regulatory Flexibility Act, 5 USC 605(b)). The rule will not significantly impact any businesses. As a result, an initial regulatory flexibility analysis was not prepared."[1]

The Office of Advocacy asserts that the certification violates the RFA because it lacks the requisite factual basis. Merely stating that the rule will not significantly impact any businesses will not meet the requirements of the RFA. The agency's statement is not a factual basis--it is a mere assertion. There is no information about the basis of that conclusion or facts to support that conclusion.

Moreover, as USPTO noted in its certification, the RFA requires agencies to consider the economic impact on "small entities." Section 5 U.S.C. § 601(6) of the RFA states that the term "small entity" shall have the same meaning as the terms "small business," "small organization" and "small governmental jurisdiction" defined in paragraphs (3), (4) and (5) of this section. Surely, it is possible for small organizations and governmental jurisdictions to apply for trademark protection. As such, USPTO should have considered the impact that the proposal will have on small organizations and small governmental jurisdictions as well as small businesses prior to certifying the rule.

The public is entitled to the information that supports USPTO's decision that this rule will not have a significant economic impact on a substantial number of small entities. Can USPTO

[1] 67 Fed. Reg. at 35082.

explain the basis of the certification? If USPTO is making the statement without any supporting rationale, it must first perform a threshold analysis to determine if the conclusion is accurate. If the threshold analysis supports the conclusion, USPTO should republish the certification along with the factual basis and allow time for the public to comment on the certification prior to the finalization of the rule. If the threshold analysis indicates that the rule will have a significant economic impact on a substantial number of small entities, USPTO must perform an IRFA and publish it for public comment prior to the finalization of the rule.

The Proposal May Require an IRFA

As stated above, the RFA requires an agency to perform an IRFA if a proposed rule is expected to have a significant economic impact on a substantial number of small entities. Advocacy asserts that the information provided in the current proposal indicates that it may have such an impact.

The Proposal May Affect a Substantial Number of Small Entities

Advocacy asserts that the information provided in the proposal indicates that this rule may affect a substantial number of small entities. It is logical to assume that USPTO must receive a large number of paper applications. Otherwise, there would be no need for this rule because processing only a few paper applications would not be that burdensome to USPTO.

The proposal requires <u>all</u> paper applicants to pay the extra filing fee. Every small entity that files a paper application will be impacted by this rule. The proposal will also impact every small entity that decides to file electronically as a result of this rule. Electronic filers will incur additional operating costs as a result of the learning curve associated with using the TEAS software and the obstacles that make multiple filings difficult using the TEAS software. Advocacy asserts that any proposal that will affect all small entities clearly impacts a substantial number of small entities.

The Economic Impact May Be Significant

The Office of Advocacy further contends that the economic impact of this rule may be significant. For small entities that file paper applications, a cost of $50.00 per claim, in addition to the application fee, could be quite costly. There are 45 possible claims that can be filed. If the applicant files 20 additional claims, it would cost an additional $1,000 to file the application. If the entity files multiple applications with multiple claims in a year, the additional costs could be astronomical.

Even if the small entity opts to use the electronic version, it may be a costly undertaking in terms of time and resources needed to prepare the application. Whereas a paper applicant can make copies of the portions of the form that are not unique for multiple filings, it is Advocacy's understanding that the TEAS software does not allow a user to copy and paste information. Instead, an applicant must fill out the various fields of the form each time the form is completed, even if the information is duplicative. For a small entity, time is a valuable resource. The time that is spent filling out duplicative fields could be spent on operating the particular entity or furthering the innovative process. If the small entity decides to hire an attorney or some other professional service, the entity will incur excess cost associated with filling out the multiple forms. Regardless of the choice, paper or electronic, small entities will lose valuable resources. The magnitude of that loss could be significant.

USPTO Must Make a Good Faith Effort to Comply with the RFA

The Office of Advocacy asserts that USPTO must make a good faith effort to comply with the RFA. If an IRFA is required, USPTO will need to consider the economic impact of the proposal on small entities and possible alternatives to this action that may reduce that impact as well as provide a thorough explanation of the need for this proposal, which it has not done. All USPTO has provided is a statement that the fee is needed and that it was calculated through the Activity Based Costing Method employed in USPTO's budgeting process.[2] USPTO has not provided the public with information about method, calculations, equations, assumptions, or variables. The public should be able to ascertain the methodology for determining the $50.00 amount and the variables for its determination. USPTO's failure to provide this information prevents the public from commenting on whether there is an alternative fee amount that could meet USPTO's goals while lessening the burden on small entities—one of the purposes of the RFA.

Conclusion

The RFA requires agencies to consider the economic impact on small entities prior to proposing a rule and provide the information to the public for comment. The lack of transparency in the proposal indicates that USPTO has not met its RFA obligations. We respectfully recommend that USPTO withdraw the rule and republish it along with a certification that provides a meaningful factual basis or a full IRFA, including a consideration of alternatives that may reduce the impact of the proposal on small entities. Short of withdrawing and republishing the rule, the agency could issue a supplemental proposal containing the requisite information.

Thank you for the opportunity to comment on this important proposal. If you have any questions, please feel free to contact the Office of Advocacy at (202) 205-6533.

Sincerely,

Thomas M. Sullivan
Chief Counsel for Advocacy

Jennifer A. Smith
Assistant Chief Counsel
for Economic Regulation

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[2] 67 Fed.Reg., at 35081.