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SUBJECT: Statement of the Central Staff Committee concerning changes in the fee system

SUBMITTED BY: President of the European Patent Office

ADDRESSEES: Administrative Council (for information)

SUMMARY

This document is submitted by the staff representatives via the President of the European Patent Office, in accordance with Article 9 (2.2) (b) of the Administrative Council's rules of procedure (see CA/D 8/06).

The document presents considerations to be taken into account when discussing any changes to the existing fee system. A broadening of the current discussion is strongly recommended. A suggestion is outlined for re-balancing the fee system including an adjustment of the distribution key with the aim of supporting European applicants and strengthening a centralised European Patent System.

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I. INTRODUCTION

The fee system in operation at all of the national patent offices and at the European Patent Office (“Office”) comprises two basic elements: procedural fees and renewal fees. Procedural fees are charged for work performed by the patent office, e.g. registration of the application, search, examination, publication etc. Annual renewal fees are levied to maintain the legal status of an application or of a granted patent. The amount of the renewal fees traditionally increases over the lifetime of a patent in order to provide the patentee with an incentive to allow patents which are not exploited to lapse, thereby permitting the technology to enter the public domain.

In order to encourage filings and to keep the patent system accessible to small and medium-sized enterprises (SMEs) as well as private inventors, the procedural fees are normally kept below cost level. The renewal fees charged at the later stages of the life of the surviving patents (when virtually no costs for the patent office arise) effectively cross-subsidize the earlier phases of application processing and non-income-generating activities such as provision of patent information. In addition, the renewal fees cross-subsidise the processing of those patents that turn out to be economical failures. Finally, for patent offices the renewal fees provide an element of much needed financial stability in the face of possible fluctuations in the number of incoming applications.

During the last decade various approaches to fine-tuning the fee system in order to influence applicant behaviour have increasingly been discussed and implemented. Recently, proposals for more fundamental changes to the fee structure have also attracted attention.

This document presents some basic points to be considered when discussing changes to the fee structures for the European Patent Organisation (“Organisation”). Any effective strategy must take proper account of the high complexity of the European patent system. In particular, the interdependence of the Office and the national patent offices at the level of governance and at the level of finances creates potential for conflicts of interests that needs to be addressed.

The Central Staff Committee therefore demands a broad debate about the financing of the European patent system *as a whole* before any fundamental changes in the fee structure of the Organisation are decided upon and implemented. In this debate all stakeholders should be involved in order to extend the discussion beyond the perspective of the patent office administrations.

In the present document we also provide arguments as to why an adjustment of the distribution key for renewal fees for granted patents in favour of the EPO would be justified and why this would benefit European applicants.

A. FEES AND FINANCING OF THE EPO

When the European Patent Office opened its doors the fees were set at such a level that when at least 5 Member States were designated, the costs to the applicant for the processing of a European patent application were lower than those for processing of the corresponding number of national applications.

During the 1980s and 1990s the financial situation of the Office was perceived as very solid. Under the circumstances prevailing at that time, the EPO felt sufficiently secure to abstain from raising its fees and, in some cases, was even in a position to approve fee reductions.

Following the adoption of IFRS (International Financial Reporting Standards) the financial situation of the Office is now perceived as much less favourable. The transfer of 720 million in liabilities from the Member States to the Office decided in 2007¹ has further worsened the situation.

In recent years the Office has put forward various proposals to fine-tune its fee structure with the aim of influencing applicant behaviour. The results have been mixed. The recent decision of the Administrative Council not to charge any claim fees for the first 15 claims (previously the first 10 claims) has led to a loss of income estimated at about 50 million Euros a year, and has caused a considerable amount of extra work for examiners due to an increase of 50% in the typical minimum number of claims filed, i.e. from 10 to 15 claims. The higher claim fees applicable from the 16th claim onwards may also lead to an increase in the number of “and/or” claims and more complex dependencies, neither of which is desirable.

¹ See page 3 of CA/20/08

Similarly the decision to charge page fees has forced the formalities officers to count the number of pages and argue with applicants about how the pages are to be counted in case of electronic filings. This may not be cost-effective.

In general, it would seem that the lowering of fees tends to encourage applicants to occupy the extra financial space thus provided, whereas applicants may be rather resistant to negative incentives through fees. This could be because, on the one hand, the Office contribution to the overall costs of a patent is relatively low² and, on the other hand, there may be strong external motivations for the behaviour that the Office is trying to discourage.

Upon grant a European patent application results in a bundle of national patents. The level of renewal fees for patents granted by the Office is thus set by the national offices. The EPO currently receives 50% of those national renewal fees.

B. FEES AND FINANCING OF THE NATIONAL OFFICES

The fee structures and individual fees presently applied by the national patent offices across Europe vary greatly. Table 1 (Annex 1) gives an overview of the national search fees for an international-type search levied by a sample of national patent offices. We have looked at the fees for an international type search because these “products” should be comparable. Nevertheless there is almost a factor 20 (!) difference between the lowest amount charged (Austria: 50 Euros) and the highest amount charged (about 945 Euros, by the Scandinavian countries).

The further procedural fees follow a similar trend: filing and examination fees tend to be lower in those countries that charge low search fees, i.e. there seems to be little if any correlation between the level of the fees charged and the size of the market served. It therefore seems legitimate to pose the question as to whether the difference in pricing amounts to a distortion of competition.

Most national patent offices also examine and grant national trademark rights. This procedure tends to be more cost-effective. As a consequence national patent offices can use the income from their trademark activities to cross-subsidise patent activities. The extremely low level of procedural fees charged by some national

² Including the share of the national renewal fees remitted to the Office, about 20% of the total cost according to studies by Roland Berger (2005) and Pottelsberghe and Mejer (2008)

patent offices would, however, not be possible without further cross-subsidising through renewal fee income derived from patents granted by the European Patent Office.

C. THE CASE FOR CHANGE

The fees and costs associated with the patent system have been under discussion for some time. The EU has called for a reduction of the cost burden arising from fees arguing that patent-related costs in Europe are too high in comparison to the US and to Japan.

Fees have also been discussed as a possible means for influencing applicant behaviour. For instance, higher filing, search and examination fees have been proposed as a solution to the backlog problems, also referred to as 'global warming of patents' by Office management. The allegedly weak financial situation of the Office following the introduction of IFRS and a fear of possibly reduced patent lifetimes have likewise been cited as reasons for increasing the procedural fees of the Office.

The Central Staff Committee is not convinced by these arguments. Backlog problems are primarily an issue at the USPTO. WIPO considers the backlog situation at the EPO as "stable"³. The current economic crisis is further likely to reduce the growth in filing numbers. As far as patent lifetimes are concerned, the trend is unclear. Indications pointing towards a prolongation of patent lifetimes have been noted by some analysts⁴. The limitations of IFRS have become apparent in the context of the present financial crisis. The apparent inability of IFRS to account for the complex fee system common to all patent offices, whereby early phases of the patent life are cross-subsidised through income generated by the late phases, and the dominance that IFRS gives to the pension reserve fund, raise serious questions about its overall suitability for the particular accounting requirements of the Organisation, and the Office in particular, and whether it can provide reliable guidance for making decisions about fee policy.

³ See http://www.wipo.int/export/sites/www/ipstats/en/statistics/patents/pdf/wipo_pub_931.pdf (section "highlights", p. 8-9) "There has been an increase in the number of pending patent applications at the United States Patent and Trademark Office (USPTO). ... The number of pending applications at other large patent offices, such as Germany (265,395) the European Patent Office (247,165) and Canada (205,776), is relatively small (compared to the USPTO and the JPO) and has been stable over time."

⁴ N. van Zeebroeck, 2008, Long live patents: the increasing life expectancy of patent applications and its determinants, Université Libre de Bruxelles ULB – Solvay Business School – Centre Emile Bernheim

The Central Staff Committee is of the opinion that in the current macro-economic landscape any new procedural fee policy for the Office should aim to improve access to the European patent system for SMEs, universities, scientific institutions and private inventors, who can act as a driver for economic recovery. Simply imposing an additional cost burden on such entities could put a brake on innovation and thereby prolong the current economic and financial crisis.

A reinvestment of some of the excess renewal fees generated by the Organisation and which are currently retained by the national offices should therefore be considered with the aim of supporting the Office and improving the quality of its search and examination processes.

II. THE OPTIONS AND THEIR RISKS

A. INCREASING (“FRONT-LOADING”) THE EPO’S PROCEDURAL FEES

The principal option publicly brought forward by the Office for reforming the Organisation’s fee system and thereby improving the Office’s finances under IFRS is a shift towards increased procedural fees, the so-called “front-loading” approach.

In 2007 the income distribution for the Office was in 2007:

44% income from procedural fees,

28% income from renewal fees during processing in the Office,

28% income from renewal fees on granted patents.

In 2009 the Office already raised its search fees for European applications to 1050 Euro as a consequence of the introduction of the ESOP⁵. The search fee for a PCT application now stands at 1700 Euro. In other words: there already is a considerable degree of front-loading in the Office fee structure.

Corresponding figures for the national offices are not available. From Table 1 (Annex 1) it can, however, be seen that, for example, the UK and the Austrian patent offices are currently following a fee policy other than “front-loading”.

⁵ <http://www.epo.org/patents/Grant-procedure/Filing-an-application/costs-and-fees.html>

One argument currently being advanced in favour of further increases in the Office's procedural fees is that such an increase would have the effect of reducing the dependence of the Office on national renewal fees. There is, however, a significant risk that other unintended effects could follow as a result of these proposed fee increases:

- Renewal fees for granted patents provide income stability to patent offices. A shift towards procedural fees would render the Office's income more dependent on fluctuations in filing figures and hence more volatile.
- The increased fee burden may prevent the protection of inventions and thus hinder innovation. This negative impact would probably be greatest for applicants from the Member States with the weakest economies. This does not seem desirable, in particular during a time of economic crisis.
- An increase in Office procedural fees, without a corresponding increase in national processing fees, would further distort the balance between filing at the Office and the national filing routes, possibly paving the way for a further shift in the fee distribution in favour of the national offices, to the detriment of the Office.

In particular when combined with mutual recognition of search results between national patent offices, as recently suggested by the British government, further fee increases in the Office could provide an incentive for applicants to revert to the national route and hence for Europe to revert to the chaotic situation that existed before the founding of the European Patent Organisation.

A small number of major national patent offices could potentially benefit from a renewed preference towards national filing routes in Europe. However, apart from the impact of such a development on the Organisation, a larger number of national patent offices in smaller economies would be more likely to suffer a reduction in application numbers. The European economy would in all likelihood suffer from a lack of transparency and a fragmentation of the market.

Finally, it has been observed that without political control and with the focus merely on internal finances, patent offices tend to distort the fee structure towards an overloading of procedural fees⁶. This in itself should be a warning.

B. RE-ADJUSTMENT OF THE DISTRIBUTION KEY

If the financial situation of the Office is such that additional income is required, the approach favoured by the Central Staff Committee would be a re-adjustment of the distribution key.

According to Article 40(1) of the European Patent Convention the amount of fees received by the Office from its own activities and the amount of fees transferred by the Member States in respect of patents granted by the Office “*shall be fixed at such a level as to ensure that the revenue thereof is sufficient for the budget of the Organisation to be balanced*”.

Article 40(2) EPC further specifies that “*if the Organisation is unable to balance its budget ..., the Contracting States shall remit to the Organisation special financial contributions ...*”.

Article 39(1) EPC sets an upper limit of 75% on the proportion of national renewal fees generated by EPO patents to be paid to the Office. Initially the distribution key for these renewal fees was set at 60% for the Office and 40% for the national patent offices. In 1984, at a time when the Office’s financial situation was deemed to be strong, the distribution key was changed to 50% / 50% and has remained at this level ever since. Now that the financial situation of the Office is perceived to be weak and is, *de facto*, significantly weaker than that of many national patent offices, a re-adjustment of the distribution key should be given serious consideration.

Returning to the EPO a larger proportion of the renewal fees for patents which it has granted would not only allow the Office to balance its budget more effectively but possibly also permit a reduction in EPO procedural fees with the aim of facilitating access to the patent system for small applicants. Such a step would support industry in the present crisis and help to maintain a low entrance barrier to the system for SMEs, universities and private inventors.

⁶ Gans J., King S., Lampe R., 2004, Patent Renewal Fees and Self-Funding Patent Offices, Intellectual Property Research Institute of Australia, University of Melbourne.

The problem of speculative filings could be addressed by the ongoing *raising the bar* actions. Addressing the backlog problem through quality is a more targeted and hence fairer approach because it would affect only low quality and speculative applications rather than affecting all filings.

As an additional measure, an indexing of all patent fees to inflation should be considered, as this would avoid a silent devaluation of the fee levels. It would make the fees development more predictable for applicants and avoid the time-consuming political discussions that now take place every few years. Preferential pricing for SMEs and other 'small' applicants could also be considered.

III. THE POLITICAL SITUATION

The European patent system is unique in that for all of the Member States of the EPO two routes exist by which a national patent can be granted: via the national patent office and via the EPO. The national offices and the EPO are thus in direct competition.

In most Member States the overwhelming majority of the patents in force have been granted by the Office. For example, in the United Kingdom roughly 80% of the patents in force have been granted by the Office and only about 20% by the UKIPO.

This situation leads to a high level of interdependence. From Table I (Annex I) it can be seen that the national patent offices are to a great extent financed through annual renewal fees received for patents granted by the Office, while the Organisation and the Office are actually governed by the heads of the national patent offices that make up the vast majority of the heads of delegations in the Organisation's Administrative Council.

From a purely financial point of view patents granted by the Office provide a higher return on investment for the national patent offices than patents granted locally. However, ultimately the excess income from patents granted by the Office may become hard to justify. For instance, in 2007 the balance of the Austrian Patent Office shows total expenses of 16.7m€ compared to a total income of 32.6m€ which includes an income of 19.9m€ for renewal fees from patents granted by the European Patent Office⁷.

⁷ <http://www.patentamt.at/geschaeftsbericht2007/de/einaus.html>

For these national patent offices one way to balance the budget is to attract more work, in order to be able to recruit more staff and thereby raise expenses. Their representation in the Administrative Council enables the national patent offices to divert work from the Office for this purpose.

Already the so-called “special searches” have been taken away from the Office⁸. Most recently part of the Office’s reclassification task has been transferred to the national offices⁹. The ultimate vehicle for the redistribution of work seems to be the European Patent Network (EPN)¹⁰, which has been decided despite a clear lack of support by the applicants and a lack of positive results in a “pilot” run under the most favourable conditions possible¹¹.

It seems that the very success of the European Patent Office may thus have become a driver for the re-nationalisation of the European patent system.

IV. CONCLUSIONS

Due to the interdependence of the Office and the national patent offices, the financing of the Office cannot be seen in isolation from the financing of the national offices. The staff representation of the EPO has thus repeatedly asked for a comprehensive study on the financing of the European patent system as a whole. We maintain this request.

We further note that whereas the decision to change fee structure and fee level of the EPO are within the power of the national patent offices, through their representatives in the Administrative Council, the Office has no influence on the fees levied by the national offices, not even the national renewal fees which influence its own financing. This leads to an imbalance of power and a distortion of the competition between the EPO and the national offices that urgently needs to be addressed at a political level.

The Central Staff Committee understands that national patent offices have the duty to maintain a certain expertise in patents at a national level in order to be able to support and inform applicants from within their Member States. However, the centralisation of the patent search, examination and granting procedure have its

⁸ CA/75/07

⁹ status: CA/T 3/09

¹⁰ <http://www.epo.org/about-us/european-patent-network.html>

¹¹ <http://www.suepo.org/archive/su08156cp.pdf>

basis in the European Patent Convention and its Centralisation Protocol, to which the Member States signed up and which the Administrative Council is bound to apply.

The EPO and the national patent offices must therefore find a way to cooperate with each other in a manner that respects the Centralisation Protocol.

Finally, the Central Staff Committee agrees that an in-depth discussion on the fees, financing *and governance* of the European patent system is due. This discussion should involve all the stakeholders of the European patent system. These stakeholders include, but are not limited to, industry, academic inventors and the patent profession. Scientific advice from economists and political guidance at European level should also be sought.

ANNEX 1 TABLE I

	Income derived from patents granted by the EPO (M€)*	Total income (M€)**	Share of income derived from patents granted by the EPO (%)	National search fee (€)***
Austria	19,4	32,6	61	50
Belgium	7,4		NA	300###
Switzerland	7,7	25,2	30	305
Germany	96,8	266,7	36	250
Denmark****	6,7	23,8	28	942
Spain****	12,9	58,2	22	665
Finland****#	2,8	19,7	14	945
France	37,4	191,4	20	500###
United Kingdom	36,8	91,1	40	144
Ireland	3,8	10,4	37	361
Italy	-		-	200
Netherlands##	22,7	27,7	82	794###
Sweden	9,9	31,4	32	945

Unless otherwise indicated 2007 data have been used.

* source: CA/27/08

** amount stated in annual Reports of NPOs

*** for the EPO the search fee is presently set at 1050€ (including a preliminary opinion) for a search in a European application and 1700€ for a PCT search

**** 2006 data

***** estimation based on allocated budget

income of NBPR's 'Enterprises and Corporations Line' (trade register) €19.2m deducted

income from patents only (income from trade-marks is not included)

searches for these offices are performed by the EPO

Conversion rates assumed for 2007 or 2006:

1 EUR = 1,640 CHF
 7,460 DKK
 0,695 GBP
 9,300 SEK