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SUBJECT: Fee Reform and Sustainable Financing:
Document 4: 'Continue enhancing certainty in the patenting process'

SUBMITTED BY: President of the European Patent Office

ADDRESSEES: 1. Budget and Finance Committee (for information)
2. Administrative Council (for opinion)

SUMMARY

The workshops on Fee Reform and Sustainable Financing organized by the office in 2009 came up with the fourth principle 'continue enhancing certainty in the patenting process' (CA/160/09). The discussions during the workshops touched largely on the behaviour of applicants during the patenting process and the 'gaming' of the patent system.

A particular focus was put on around 60% of incoming workload cases that do not get granted. A high degree of 'gaming' appears to take place within these cases, where this term mainly refers to activities that lead to an unnecessary prolongation of the patenting process and to the formulation of applications in a way which decreases clarity of the scope of protection.

The Office will carry out further analysis on 'gaming' of the patent system and will provide the Administrative Council with quantitative and qualitative evidence on the particularities and driving forces that stand behind these strategies. The results should provide the necessary empirical evidence for decisions on concrete measures that will help to increase certainty and transparency in the patenting process.

TABLE OF CONTENTS

Subject	Page
I. STRATEGIC/OPERATIONAL	1
II. RECOMMENDATION	1
III. MAJORITY NEEDED	1
IV. CONTEXT	1
V. ARGUMENTS	2
A. MAIN MESSAGES	2
B. OUTLOOK	3
VI. ALTERNATIVES	4
VII. FINANCIAL IMPLICATIONS	4
VIII. LEGAL BASIS	4
ANNEX 1	5
ANNEX 2	6

I. STRATEGIC/OPERATIONAL

1. Strategic.

II. RECOMMENDATION

2. The Administrative Council is requested to give its opinion on the policy paper.

III. MAJORITY NEEDED

3. Not applicable.

IV. CONTEXT

4. In autumn 2009, four workshops on Fee Reform and Sustainable Financing were organized by the Office to explore some alternative policy options and to help the Office to review the possibilities for action regarding the roadmap (CA/100/09). Many of the participants challenged some of the 'givens' that have underpinned the patent system for the past 50 years. Some workshops went further and strongly suggested that fee policy guidelines be commonly agreed between Member States and EPO.
5. One of the topics that emerged in these discussions concerned uncertainty in the patenting process. The discussions led to the formulation of the principle 'Continue enhancing certainty in the patenting process'.
6. In CA/160/09 some of the issues around this principle have already been described. The discussions during the workshops touched largely on the behaviour of applicants during the patenting process and the 'gaming' of the patent system.
7. A particular focus was put on around 60% of incoming workload cases that do not get granted (cf. annex 1). A high degree of 'gaming' appears to take place within these cases mainly referring to: activities which lead to an unnecessary prolongation of the patenting process and to the formulation of applications in a way which decreases clarity in the scope of protection.

8. Such filing behaviour is in full compliance with existing rules and regulations. However, it was acknowledged that this has a severe impact on the level of certainty for all stakeholders and on the sustainability of the patent system. It was therefore considered important to further analyse 'gaming' strategies, their reasons and drivers and their impact on the patent system. The findings should facilitate the identification of ways to avoid the negative effects of gaming and should help to establish reasonable means of steering against these effects.

V. ARGUMENTS

A. MAIN MESSAGES

9. 'Gaming' of the patent system takes place. Most analyses suggest it is significant and growing especially in the area of pending applications. Thus, in the following we refer to 'gaming' and specific behaviour patterns only in the context of the pre-grant phase.
10. 'Gaming' of the patent system affects the patent system as a whole and creates uncertainty both internally and externally, i.e. inside the Office and the Organisation and outside among individual applicants, industry and society.
11. Externally, for third parties a growing number of pending applications create uncertainty about final outcome and validity of applications. This means less legal security for industry and as a consequence higher costs in the innovation process which translates in the end to higher costs for society.
12. In this context it is important to keep in mind other external consequences. 'Gaming' of the system, such as wilfully increasing the pendency of applications, filing high number of divisional applications, etc. also affect competition. There are a number of ways in which pending patents could be used anti-competitively. This can for example happen when cross-licensing agreements are negotiated between competitors or licensing pools are established in the course of a standardization process. Patent flooding scenarios where a dominant firm files large numbers of poor quality patent applications and the fact that even such weak pending patents can have a powerful effect on competition may enable applicants to keep rivals out of the market, force competitors into unfavourable cross-licensing agreements or influence standard setting processes in an anti-competitive way.

13. On the other hand, at the workshop it became clear that 'gaming' of the patent system also has significant implications inside the Office and the Organisation. Today around 60% of the incoming workload cases never get granted, in terms of absolute number of applications the Office is faced with twice as many cases not granted today as 10 years ago (cf. annex 1). 'Gaming' of the patent system increases the complexity of handling patent applications and thus has a direct impact on the Office's workload, its production and productivity. This then has a severe impact on the financial bottom-line of the Office and of National Patent Offices in member states. Applications that run through the whole process but finally do not get granted will not generate income from national renewal fees and are thus not cost covering. Applications that do not get granted only generate around 40% of the Office's income, but represent around 54% of its cost (cf. annex 2). This has an impact both on the budget of the Office and on the income of the National Offices. The uncertainty about the future financial income poses a threat to the financial sustainability of the patent system.
14. However, the workshops also made clear that future discussions will require a solid basis of information to get a more comprehensive overview of the situation. 'Gaming' and the uncertainty it creates have many facets which differ across industries, size of applicants, origin of applicants, patent attorneys, etc.
15. Accordingly, across these dimensions the drivers and reasons for uncertainty have to be investigated further. The implications on the patent system, both from an operational, financial and economic perspective, have to be analysed in more depth. Such a comprehensive view based on evidence and analysis will facilitate ongoing discussions and should prepare the ground for effective and sustainable measures.

B. OUTLOOK

16. The Office will carry out further economic analysis on 'gaming' of the patent system and will provide quantitative and qualitative evidence on the particularities and driving forces that stand behind these strategies. The objective of the collection of further evidence is to facilitate measures that will increase the degree of certainty and transparency in the patenting process.
17. The Office has already started with economic analysis on the uncertainty in the patent system. The purpose is to provide a quantitative analysis of the behaviour of applicants and of the uncertainty in the patent system that this behaviour induces. Empirical evidence will be available for the Council's October meeting.

18. Follow up analysis on 'gaming' with pending patent applications should also consider the close involvement of EPO patent examiners. Evidence on why patent applications fail to be granted and why processes tend to be lengthy has to be based both on qualitative and quantitative evidence.
19. In addition, the Office plans to start a quantitative and qualitative business study on the different groups and segments of applicants, attorneys and external service provider (e.g. fee payment agencies) and on how behaviour across these different groups varies. A key purpose of this study will be to focus especially on those applicants, attorneys and external service providers who are responsible for a large proportion of applications and the Office's income from fees (i.e. the Office's "key accounts") and then to analyse what kind of impact the behaviour of such key accounts may have on the Office's financial bottom-line. The main objectives are:
- to segment applicants, attorneys and service provider by the volume they generate, both in terms of number of applications and fees,
 - to analyse available quantitative data specifically on these key accounts to identify patterns in behaviour and strategies pursued and their impact on the Office's bottom-line,
 - to gather qualitative information on the driving forces behind the key accounts' actions and behaviour.
20. Furthermore, the Office will assume its responsibility in collaborating with other institutions that are directly and indirectly affected by uncertainty in the patenting process, such as competition and standardization authorities. The Office will remain in close contact with the European Commission and the OECD to ensure that patent related matters in these areas are adequately taken into account.

VI. ALTERNATIVES

21. Disregarding the economic and financial impact of uncertainty in the patenting process is not an option. A comprehensive overview of the driving forces of uncertainty is required in order to develop a set of targeted policy measures.

VII. FINANCIAL IMPLICATIONS

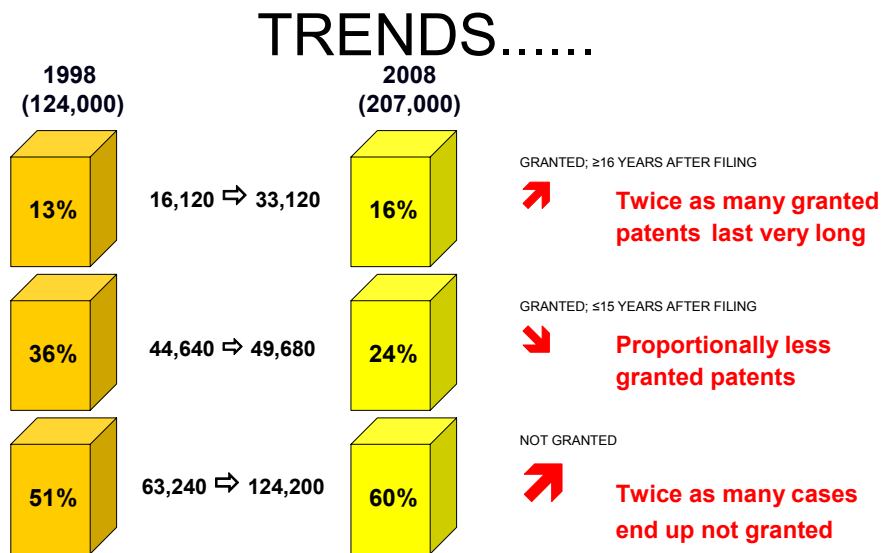
22. The studies foreseen should not cost more than 200.000 EUROS.

VIII. LEGAL BASIS

23. Not applicable.

ANNEX 1

Trends of granted versus un-granted patent applications (slide from the regional workshops on Fee Reform and Sustainable Financing in 2009)



ANNEX 2

Workload, income and costs of granted versus un-granted patent applications in 2008 (slide from the regional workshops on Fee Reform and Sustainable Financing in 2009)

