

CA/33/10

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SUBJECT: Fee Reform and Sustainable Financing:
Document 2: "Cost-coverage, yes, but not everywhere"

SUBMITTED BY: President of the European Patent Office

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

SUMMARY

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).

This document further develops the principle of 'Cost-coverage, yes, but not everywhere'. The general idea is not to discuss full cost-coverage for all procedures, but elements of cost-coverage for certain procedures.

The Office invites the Administrative Council to start an in-depth debate on appropriate levels of cost coverage for individual procedures.

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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. The Office is expected to cover its entire costs with revenues from patent processing, internal (pre-grant) renewal fees, designation fees and renewal fees on granted patents. In a system with non-cost covering procedural fees pre- and post-grant renewal fees have to cover the deficit.

5. To make today's system work, only the national renewal fees received for those granted patents that are maintained for at least 16 years have the effect of compensating for the procedures of all non-successful applications. Driven by the fact that more and more files entering the EPO end up not being granted, the system is becoming unsustainable in the long run (see Annex 1, Graph 1)

6. The general agreement during the workshops was not to discuss full cost-coverage for all procedures, but elements of cost-coverage. In particular, participants were ready to discuss *higher* levels of cost-coverage of procedural fees for certain products subject to the application of the remaining five principles (CA/160/09).

7. This document concentrates on the issue of *higher* cost-coverage for the main patent procedures. Cost-coverage of non procedural services, such as patent information, is not discussed in this document.

V. ARGUMENTS

A. MAIN MESSAGES

8. Once a year, the Office presents the level of cost-coverage of procedural fees by product for each of search, examination, opposition and appeal. Renewal fees for

applications and for granted patents are not taken into account, because they cannot be related specifically to these products (CA/70/09).

9. Currently, the level of cost-coverage of procedural fees for search and examination is around 50 per cent. The other half of the cost has to be covered by revenue not directly linked to the process, I.E. internal and national renewal fees (currently in equal parts). With the theoretical inclusion of internal renewal fees on search and examination, roughly 75 per cent of the costs are covered by fees under EPO control. The remaining 25 per cent have to covered by post-grant renewal fees.

10.

| Cost Coverage for: | 2008 (in%) |
|---------------------------|-------------------|
| Filing | 27 |
| Search | 49 |
| Examination | 49 |
| Opposition | 5 |
| Appeal | 4 |
| Patent Info/Publication | 21 |
| Technical Cooperation | 13 |
| Academy | 7 |

Source: CA/70/09.

11. The cost coverage for opposition and appeal is very low, in a range of 4 - 5 per cent. Both procedures have to be financed virtually completely through other sources than the corresponding procedural fees.

12. The elaboration of a 'more' cost-covering fee system for the major products requires consideration of the following two points:

- Level of cost-coverage (differentiated by products)
- Payment modalities

Level of cost coverage.

13. In general, a higher level of cost-coverage of procedural fees makes the system less fragile with regard to future post-grant behaviour. From the viewpoint of

financing, 100 per cent cost-covering fees for all procedures would be advantageous. The core products of the Office would be self-financing and financially independent of national renewal fees.

14. However, strong political and economic rationales argue against full cost-coverage of procedural fees. The traditional view on patent fees is that low entrance fees for search and examination can facilitate access to the system. The compelling case for low procedural fees for opposition and appeal is to provide access to justice.
15. But there are also recent voices arguing that low entrance fees have detrimental effects as they might be a reason for the increasing levels of backlogs in many offices and the decreasing quality of incoming applications. Elsewhere, the leverage of low entrance fees is challenged by putting official fees into perspective with attorney and the applicant's own cost for preparing the application.
16. Regardless of which argument eventually prevails, none of them provides any firm conclusions about the 'correct' amount or percentage of cost-coverage. In the end, all financial, political, economic and empirical arguments have to be thoroughly discussed and balanced, in fact for each and every procedure individually. Therefore, the Office invites the Administrative Council to start an in-depth discussion on appropriate levels of cost coverage for individual procedures.

Payment modalities

17. Closely linked to the level of procedural fees, different options as to the payment modalities of procedural fees have to be discussed. In the following we highlight some advantages and disadvantages of
 - a lump-sum payment at the beginning of the (each) procedure
 - a lump-sum payment with reimbursements in case of pre-defined events
 - step-by-step payments
18. The Office is carrying out a study on selected fee issues within the European patent system (literature review, survey of national fee policies and empirical evidence as to the steering function of EPO fees). A small survey of national fee policies showed that in Europe extremely divergent systems exist. Some systems charge one combined search and examination fee (initial lump sum), but as far as we are informed, there is no patent system with subsequent reimbursements of procedural fees.

19. Other systems apply a very sophisticated system with many step-by-step payments according to the effort. In addition to the widely-used claims and page fees, further fees are possible for

- (additional) requests for amendments
- (additional) communications
- (additional) requests for further processing

In practice, these fees can even be progressive in the sense that fees are increasing for each additional request.

20. Since fees of this kind do not only fulfil a financial function but are supposed to steer applicants' behaviour, incentives can be created e.g. in the context of enhancing certainty. A dynamic effect of increased cost awareness of applicants might be the reduction of extremely complex cases (both in number and the degree of complexity) which can smooth the procedure.

21. According to a recent survey among EPO applicants (see Future Filings Survey 2009, to be published soon on the EPO site at <http://www.epo.org/patents/surveys/future-patent-filings.html>) fee incentives to reward applications that are easy to process and additional fees to be paid in more complicated cases obtain a high acceptance, namely by two thirds of respondents. CA/36/10 provides background to the principle 'Continue enhancing certainty in the patenting process' and describes the steps foreseen in order to explore the issue.

22. The aforementioned survey among EPO applicants also shows that the system with step-by-step payments has proven advantageous for a large majority (90%) of applicants.

23. However, complex systems such as a step-by-step approach with incentives do open new loopholes, too. Hence, the possibilities for circumvention of fees have to be carefully analysed.

24. One further advantage of a step-by-step approach is the combination of the cost-by-cause principle and the requirement of easy access to the system with low entrance fees. Lump-sum fee payments at the beginning of the procedure would be higher than entry fees in a step-by-step system. High early lump-sum payments would also create a demand for exceptions, support or fee reductions, be it for SMEs, the 'inexperienced' users or other types of applicants.

25. The step-by-step approach based on the cost-by-cause principle would allocate operating cost to those applications that require more effort (intentionally or not). This would constrain any fee redistribution between applicants using the granting process as originally intended and those "gaming" the system, or between 'successful' applicants and new entrants.
26. Another advantage of the step-by-step approach is the contemporaneous payment of the fees. While the step-by-step approach has many advantages, it certainly is more difficult to administer than lump-sum payments. However, reimbursements might be the most complicated method. The current patent system and the corresponding fee systems are already quite complex, both for applicants and the Office. The application of a step-by-step approach according to the cost-by-cause principle would also require a more detailed unit cost approach.

B. OUTLOOK

27. To resume the general discussion about higher cost-covering procedural fees, the Office proposes a workshop with Contracting States and other stakeholders in autumn 2010.
28. Delegations are also invited to present their experiences with specific fee systems.

VI. ALTERNATIVES

29. Discussion of the issue during the regular meetings of the Administrative Council.

VII. FINANCIAL IMPLICATIONS

30. The cost of organising a workshop.

VIII. LEGAL BASIS

31. Not applicable.

IX. DOCUMENTS CITED

32. CA/70/09, CA/100/09, CA/160/09, CA/36/10.

TRENDS.....

