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SUBJECT: Fee Reform and Sustainable Financing
Document 6: 'Predictability of national renewal fee policies'

SUBMITTED BY: President of the European Patent Office

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

SUMMARY

The workshops on Fee Reform and Sustainable Financing led to a series of open discussions, one of them on how to improve the predictability of national renewal fees (CA/160/09). Some suggestions considered the harmonisation of national renewal fee policies or even the levels of renewal fees.

While national renewal fees are under full national sovereignty, the Office is prepared to facilitate a debate among the Contracting States. This paper gives an overview of the wide range of fee policy options that the Office observes. The Office proposes a survey based data collection and a workshop to exchange arguments to what extent harmonisation of national renewal fees is credible.

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I. STRATEGIC/OPERATIONAL

1. Strategic.

II. RECOMMENDATION

2. The Administrative Council is requested to start an open exchange on national renewal fee policies and related harmonisation issues.

III. MAJORITY NEEDED

3. Not applicable.

IV. CONTEXT

4. The economic function of a national renewal fees policy is generally understood and supported. It enables patentees to assess the benefit to them of maintaining their monopoly right and it encourages the early release of knowledge to the general public. In most national systems renewal fees subsidise low procedural fees for search and/or examination activities.

5. While national renewal fees from all Contracting States contribute considerably to the functioning of the European patent system and the EPO as the granting authority, the legal framework of the EPC does not consider any provisions regarding the predictability or the harmonisation of national renewal fee policies and national renewal fees.

6. Nevertheless, during workshops with Contracting States and stakeholders in 2009 there were many concrete suggestions to improve the predictability of national renewal fees, amongst others a general indexation to account for inflation. Some participants suggested that there should be a political moratorium on any reductions until the Council had reached a view on a strategic fee reform. Other suggestions addressed the rather small minimum amounts currently in force.

7. Some suggestions considered harmonisation of national renewal fee levels in the sense of creating a link to economic indicators such as population or GDP. Partial regionalisation of national renewal fees was also mentioned at several workshops.

8. The workshops also agreed that it was important to keep each other informed about developments in fee policy, in order to avoid surprises.

9. According to the EPC (cf. Art. 35), decisions amending the Rules relating to Fees, regarding the minimum amounts or the distribution key require a majority of three-quarters of the votes of the Contracting States. The national renewal fees, on the other hand, are under full national sovereignty. While any judgement on national renewal fee policies is beyond the competence of the Organisation, there is a need for an exchange of information between the Contracting States (and the Office) to start a debate on guidelines and harmonisation. To promote an evidence based policy, the Office is prepared to disseminate information and to facilitate the discussion among the Contracting States.
10. The basis for such a debate is that all delegations have an overview of practices and developments in the other Contracting States. This document provides first background information and analyses some aspects of national renewal fee policies. Rather than discussing the details of more than 30 national fee policies, the document demonstrates the wide range of different national fee policies and gives some implications for the Office.

V. **ARGUMENTS**

A. **MAIN MESSAGES**

The general set-up is as follows:

11. *Basics.* After a European patent has been granted, renewal fees are payable to the designated Contracting States. Currently, each Contracting State pays to the Organisation, for each European patent maintained in that state, a proportion of 50% of its national renewal fee. If that proportion is less than a *uniform* minimum amount fixed by the Administrative Council (cf. Art 39 EPC), the Contracting State has to pay that minimum.
12. *Payments* to the EPO are made on a quarterly basis. The Office reports on a regular basis on the practice of renewal fee collection (CA/122/09). Over the last years there has been a significant reduction in the number of open cases, waiting either lapse notification or payment of a renewal fee. For most of the countries the current situation is well-known.

13. *Accounting.* In EPO accounts, national renewal fee payments for the first three quarters of the year are recognised as revenue upon receipt of payment. National renewal fees for the fourth quarter are accrued on the basis of cash received before year-end closure and estimates. Future renewal fees for European patents are not included as an asset in the Organisation's balance sheet but as a note to the annual accounts for information purposes (at present NPV of future renewal fees is around 2 500 Mio Euro, CA/D 1/09). The principles of revenue recognition of future renewal fees for European patents have been the subject of an ongoing and intense discussion. The Office will be presenting to the BFC/AC meetings in June 2010 a document addressing this issue, in the context of the discussion raised by the EPO Staff Representation on the applicability of IPSAS, instead of IFRS to the EPO Accounts.
14. *Factors influencing renewal fee income.* Revenue from national renewal fees depends on multiple factors with complex interrelations. While trends in application numbers have only medium to long term effects on renewal fee income, national fee policies and corresponding applicants' behaviour, on the other side, have immediate effects on renewal fee income both for the EPO and for national patent offices.
15. *High concentration.* For 2009 the EPO will receive some 330 Mio Euro revenue from national renewal fees, with a high concentration of payments from a few large Contracting States. While 24 smaller countries contribute 10%, the four largest countries contribute more than half of the national renewal fee revenue (see Annex, graph 1).
16. The structure and level of national renewal fees are fixed by the Contracting States. According to their system, the national renewal fee income is either transferred to their state budget or to their national office. The national offices, the patent systems and the accounting systems differ to such an extent that each and every office exists in a unique scenario which is hardly comparable to the others. Hence, the logic behind national renewal fee policies can differ.
17. *Fee structure.* Schedules in EPC countries are of very different shape, tariffs are (quasi) linear with constant fees over the years, linear, step-wise or progressively increasing, with a progressive tariff being the dominant structure. The current progression grades differ considerably (see Annex, graph 2).

18. *Fee level.* Another significant difference is the *absolute* level of the national renewal fees (see Annex, graph 3). The analysis of *relative* levels of renewal fees shows that cumulative (year 5 - 10) fees for the 7 largest countries are more or less on the same level, one could say they are "harmonised with regard to their size" (see Annex, graph 4). The analysis also shows that most smaller countries charge relatively high fees, and within this group of smaller countries there is no obvious link between country size and fee level
19. *Fee changes.* Over the last two decades fee changes were irregular and inconsistent. Tariffs changed from linear to progressive, or from a progressive or a step-tariff to a linear one, other changes concerned the degree of progression, et cetera. For 2010 we have information from three countries: while the fees for the late patent years were increased considerably, the fees for the early years increased only moderately, remained unchanged, or even decreased. In general, in recent years a number of Contracting States have reduced their national renewal fees for the early years (3, 4, 5) as part of their broader innovation policy. In 2010 eight countries do not charge renewal fees for years 3 and 4, while in 2000 this was the case in only four countries. In 2010 renewal fees for year 5 are charged in all but one member state. It is important to emphasise that while national renewal fees have to be paid only for *granted* European patents, in national systems *pending* applications may be subject to renewal fees. A waiver of national renewal fees for the early years can therefore be effectively equivalent to abolishing renewal fees for *pending* national applications.
20. *Indexation.* In the past 10 years, fewer than five countries revised their national renewal fees on a regular or yearly basis to account for inflation. As far as we understand, in 2009, these countries suspended this practice. Moreover, eight countries have frozen their national renewal fee levels for more than 7 years.

21. *Minimum amounts.* Currently, the uniform minimum amounts are fixed at 15% of the average of the renewal fees of all the Contracting States. One peculiarity of this method is that, in theory, minimum amounts converge to nil when a sufficient number of Contracting States abolishes renewal fees. Today, a total of eleven Contracting States are theoretically subject to minimum amounts. In eight of these states, this is due to the fact that renewal fees are waived for the early patent years. Two countries, on the other hand, have to pay minimum amounts for the entire lifetime of a patent (as long as a granted patent is maintained) because the fees charged to the patentee are low. In one country the minimum amounts to be paid are even (significantly) higher than the full renewal fees charged to the patentee. So far minimum amounts apply in a minority of cases, because most European patent applications are still in the grant phase in year 3 and 4. Over the recent years, the EPO received between 150.000 and 200.000 Euro of minimum amounts annually, of which 90% account for year 4. A waiver of national renewal fees from year 5 onwards and the application of minimum amounts would have dramatic effects on renewal fee income of the Office.
22. *Predictability.* Each year, the Office's Finance Department carries out estimates of future renewal fee income according to the latest available information. While changes in national renewal fees are generally announced in advance by national offices, timely inclusion in the budget preparation is not always possible. In terms of predictability, regular but moderate adjustments are advantageous, because the general assumption that patentees' behaviour does not change dramatically seems justified. By contrast, since the basic idea of a structural fee change is to steer applicants behaviour, maintenance rates are expected to change. Therefore, for the EPO (and national patent offices) it is extremely difficult if not impossible to predict the implications of these changes on fee income. Taking account of these factors, the quality of the short-term forecasts can be considered to be very good, deviations in the latest forecast for the succeeding year are in a range of 5-7% (see Annex, graph 5).
23. *Exchange of information.* There is no regular exchange of information regarding the forecasting exercise for renewal fee income between the Office and the national offices.
24. As mentioned above, in order to understand the rationales and the driving forces behind strategic fee policies, it is important to see them in context of the legal set-up, the task, the size and the funding model for each national patent office. For the Office it is impossible to compile this kind of data for all Contracting States without their support.

B. OUTLOOK

25. The Office is prepared to collect more relevant information about the set-up and the financial structure of national patent offices. One possibility would be to update/repeat an earlier questionnaire based survey that the Office organised in 1997 among Contracting States. Document CA/41/97 compiles the information received.
26. The Office proposes a questionnaire based survey with questions regarding the
 - Financial and legal status of the national patent offices
 - Activities
 - Expenditure
 - Income
 - Patent statistics
27. A document compiling the responses and a short summary would serve as background material for a workshop with all Contracting States about harmonisation issues, in which the Office acts as facilitator.
28. The objective of an enhanced exchange of information is to raise awareness and transparency in order to allow the assessment of national arguments in context. After an exchange of viewpoints regarding the extent to which harmonisation of national renewal fee policies is possible, the common denominator should be the basis for common fee policy guidelines.
29. The questionnaire could be sent out in April. With a response deadline of two months the data collection would be made available in mid 2010. The workshop could take place prior to the meeting of the Administrative Council in autumn 2010.
30. The results of the workshop could also feed into the debate about the renewal fees for the future Community Patent.

VI. ALTERNATIVES

31. The continuation of uncoordinated renewal fee policies has a negative impact on the financial and economic sustainability of the European patent system. In any event, uncertainty about future renewal fees undermines planning reliability for both the users of the system and the Organisation.

VII. FINANCIAL IMPLICATIONS

32. Cost of organising a workshop.

VIII. LEGAL BASIS

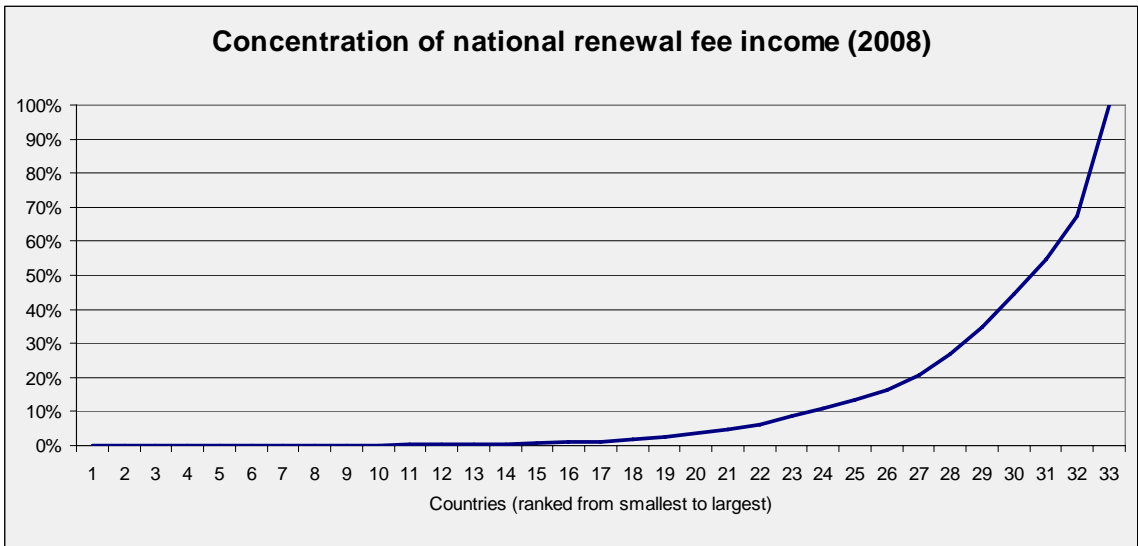
33. Not applicable.

IX. DOCUMENTS CITED

34. CA/D 1/09, CA/41/97, CA/122/09, CA/160/09.

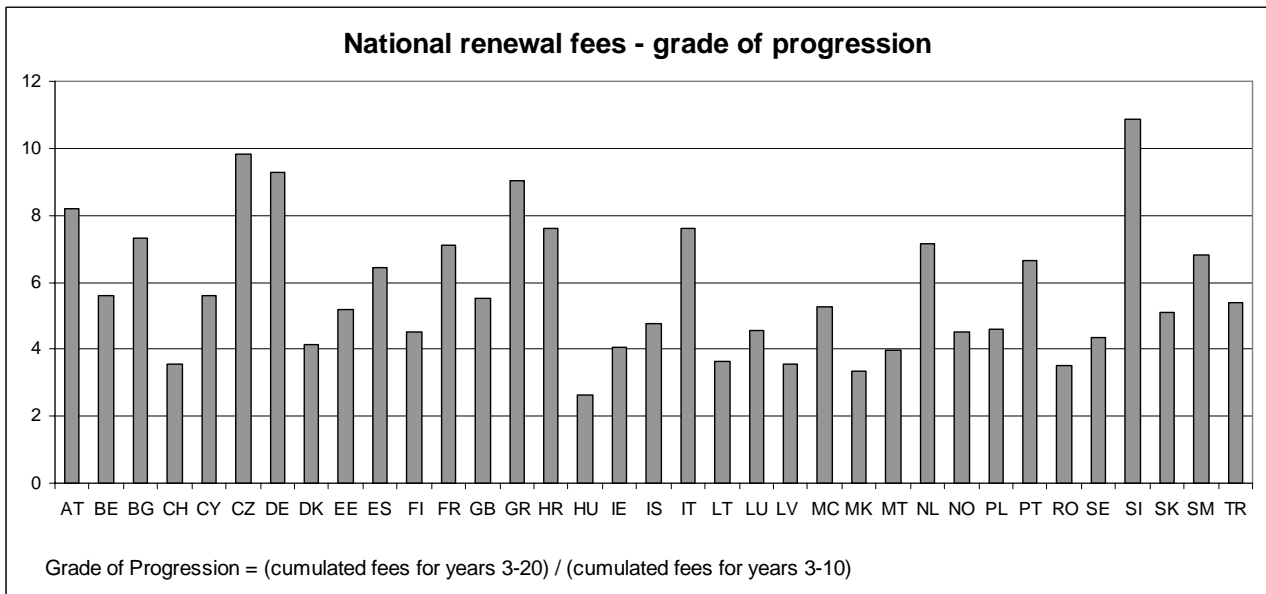
ANNEX 1

Graph 1



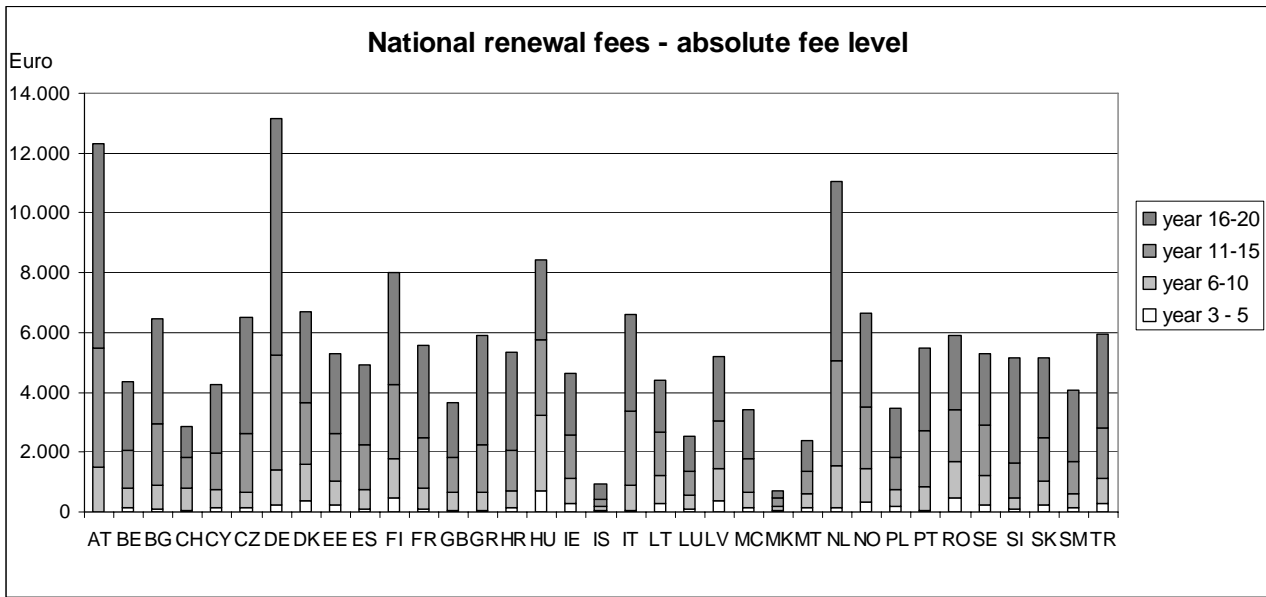
Source: own calculation

Graph 2



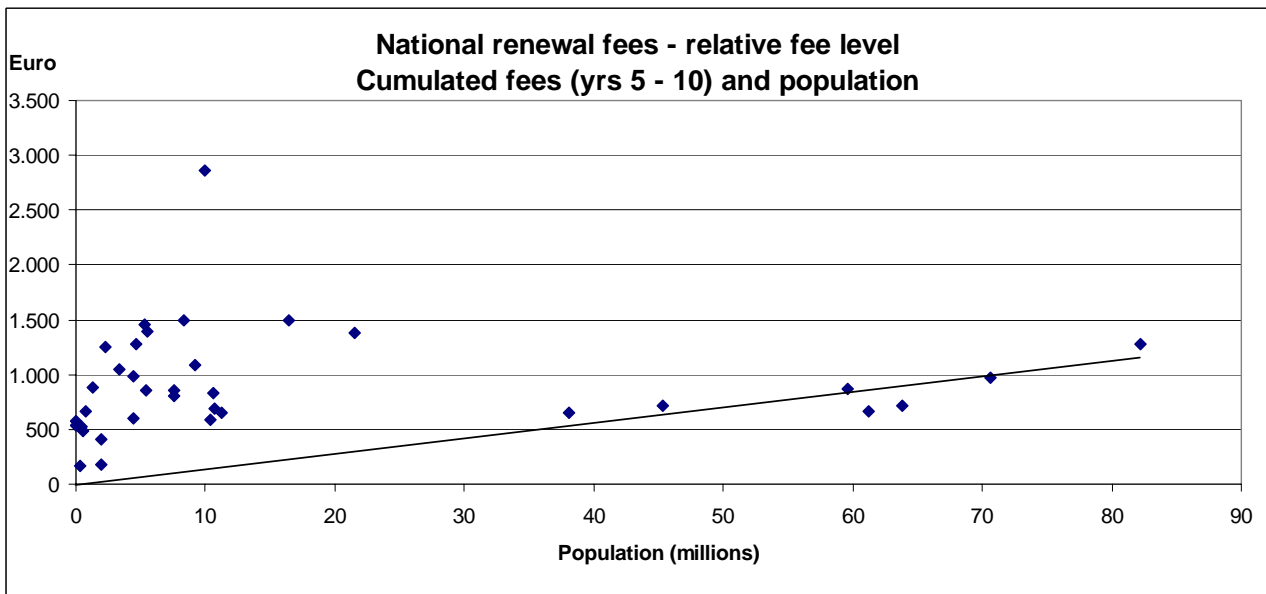
Source: CA/D 1/09, own calculation

Graph 3



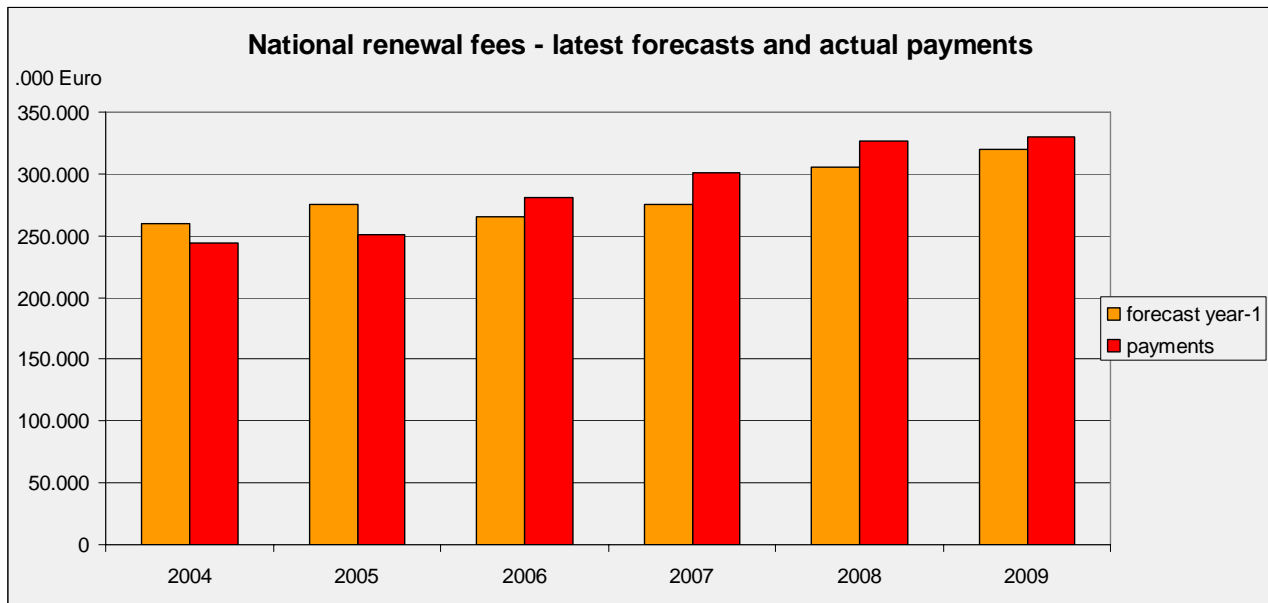
Source: CA/D 1/09, own calculation

Graph 4



Source: CA/D 1/09, OECD

Graph 5



Source: own calculation