



6 October 2014

BUSINESSEUROPE'S VIEWS AND PROPOSAL ON RENEWAL FEES FOR THE EUROPEAN PATENT WITH UNITARY EFFECT (EPUE)

THE CONTEXT FROM THE POINT OF VIEW OF AN INNOVATING COMPANY

a) THE COMPANY'S PATENT BUDGET

Companies generally have a budget for obtaining and maintaining a portfolio of patent rights. The budget covers all the costs, internal and external, that are incurred in a budget year in filing and prosecuting patent applications and in obtaining and maintaining granted patents worldwide (that is to say, in all countries or regions of the world where the company wishes or can afford to protect its innovations).

Few companies have their patenting strategy fully and exclusively budget-driven but even fewer enjoy the luxury of "spending what it costs" to maintain and develop a patent portfolio. Year in, year out the elasticity of patent budgets is very limited.

As a consequence, any increase in the costs in one area will have to be compensated by savings in other areas. If, for example, the company needs to develop its filing activity in Asia, it will have to size down its filing, prosecution, maintenance levels in other geographies. Similarly, if the costs of portfolio maintenance go up significantly in one region, the company will have to file and prosecute less patent applications or in a lesser number of countries/regions or abandon sooner patent applications or patents elsewhere. Such trade-offs are a permanent fact of life for most applicants.

b) THE CURRENT EUROPEAN FRAMEWORK

Europe is by far the most expensive region for building and maintaining patent rights. It is also, at the moment, one of the slowest growing areas for business.

As a result, the trade-offs referred to above involve to a larger extent than elsewhere a company's European portfolio. This is, of course, particularly true for European companies which have a proportionately higher share of their overall portfolio in Europe. There is, however, one redeeming feature of the current European patent system. That is the flexibility to adjust the geographical coverage, thus the costs, by selectively abandoning protection in certain European countries while retaining it in others.

c) THE FUTURE UNITARY FRAMEWORK

The new system leaves totally unchanged the (high) costs of obtaining patents through the EPO. While the maintenance costs after grant are yet unknown, the loss of any flexibility in adjusting the geographical scope of the protection in Europe is definitely a negative factor from the point of view of the patent budget.



THE DETERMINATION OF THE MAINTENANCE COSTS FOR THE UNITARY PROTECTION

1. GENERAL COMMENTS

The maintenance costs are comprised of one-off costs at grant (cost of the translation required during a transitional period, administrative costs linked to the request for unitary effect) and of yearly costs, namely the centrally paid, renewal fees and the administrative cost for effecting the central payment.

The one-off costs may be a source of some savings when compared to the same costs for validating a European patent in the generally limited number of countries chosen by the company. The savings will depend very much on the validating practice of the company but should have a limited influence overall compared to the costs relating to the yearly renewal fees.

The administrative cost of paying the renewal fee to the EPO should be minimal. Member States and representatives should ensure that the administrative cost per annuity for all patentees, including SMEs, is no more than a few euros.

The determination of the level of the yearly renewal fees is the most important issue involved in the implementation of the European patent with unitary effect. The objectives of Regulation 1257/2012 will not be met if wrong decisions are taken as to the starting level and the scaling over time of the renewal fees. Very few companies would be ready to jeopardise the structure and balance of their whole patent portfolio worldwide simply to obtain protection in more countries in Europe.

2. THE ELEMENTS OF GUIDANCE PROVIDED BY ARTICLE 12 OF REGULATION 1257/2012

While paragraphs 1 and 2 define the objectives to be met through the determination of the level of the renewal fees, paragraph 3 aims at providing guidance for such a determination.

It is unclear whether the guidance applies to the determination of the first renewal fee (the entry level, corresponding roughly to Ordinal Year OY 2 – 8) to be paid after registration of the unitary effect or to the following renewal fees as well. It is important to distinguish the two situations as the scaling of the renewal fees over time is as important as the amounts for the first years for the attractiveness of the unitary protection.

a) DETERMINATION OF THE AMOUNT OF THE FIRST RENEWAL FEES AFTER REGISTRATION OF THE UNITARY EFFECT

According to sub-paragraph (a) of Article 12(3) the level of the renewal fees for European patents with unitary effect shall be set at a level equivalent to the level of the renewal fee to be paid for the average geographical coverage of current European patents. While no reference is made to the participating Member States, it seems clear that the intent was to address the average geographical coverage of current European patents in the territory of the participating Member States.



This is confirmed by the objective set out in paragraph 2 (c). It would be unusual if the cost of protection in Italy and Spain, for example, would be taken into account in the determination of the renewal fee for the EPUE, given that it will have to be paid separately and represent an extra cost to patent owners. It remains then to determine the meaning of “the average geographical coverage of current European patents” in that territory.

In a document presented on 30 October 2013 at the workshop of the Select Committee (“Topic 1: The current practice of Validation and Maintenance of the European Patent and the Income from National Renewal Fees”), the EPO has shown that the average geographical coverage of current European patents in terms of number of countries in which an EP is validated at grant is four countries while the median of validations is three countries (see page 9/23 of the document).

The statistics were drawn up leaving entirely out, not only the non-EU European Patent Convention (EPC) Contracting States, but also Italy and Spain. This is consistent with the remark made above. It would still have been interesting to see an overview of the validation practices across all EU members of the EPC. It must be kept in mind that Italy and Spain are and will remain amongst the most frequently designated countries and companies will have to bear the costs of validating the European Patent (EP) there in addition to the cost of validating centrally the unitary patent.

Knowing the average number of countries where EPs are validated is of course not sufficient to determine the level of renewal fees paid for the average four countries because this level depends on which countries are specifically taken into account. The same document from the EPO shows (page 8/23) that in 2011 almost all EPs were validated in DE (93%) and about three out of four in FR (78%) and UK (at least 69%). The next country is NL (24%), then SE (16%), BE (15%), then AT, PL, DK and IE (about 10%). Although it would be meaningless to try and define an “average” set of four countries, it seems appropriate to base the computations on a “most likely” set of countries. This would necessarily include DE, FR and UK, to which would be added NL (or perhaps a mix of, say, NL, SE, BE).

During the 8th and 9th meetings of the Select Committee, the EPO presented simulations based on levels of renewal fees corresponding to the 3, 4, 5, 6, 7 and 10 most designated participating Member States. The presentations showed the consequences of the simulations on the balancing of the budget of the EPO depending on various assumptions regarding the penetration rate, i.e. the percentage of granted European patents for which unitary effect would be requested.

The overall impression given by the simulations is that taking as a starting point the level corresponding to 4 countries, the so-called TOP 4 simulation, would seem roughly appropriate from the point of view of budget neutrality for the EPO. Several delegations remarked, however, that the penetration rates envisaged in the simulation were probably on the conservative side, particularly as regards patentees usually validating today their EPs in less than 4 countries (it must be kept in mind that this represents about half of the European patents granted today). BUSINESSEUROPE shares that view.



A specific feature of the EPO presentation deserves attention. Instead of taking into account the true national renewal fees, the EP had changed the amounts for years 2 to 5 by replacing them with the amounts of the corresponding EPO internal renewal fees and the amounts for years 6 to 8 by applying some arithmetic interpolation. Table 1 shows the true TOP 4 curve and the curve resulting from the changes brought by the EPO. The result of the changes is clearly awkward, not to say downright unattractive. While there may be a need to slightly adjust the amounts for the early years, there is no justification for what is proposed by the EPO. After all, it might be appropriate to reward applicants who move their cases quicker through the EPO examination process by the perspective of a renewal fee after grant lower than the internal renewal fee if grant is delayed.

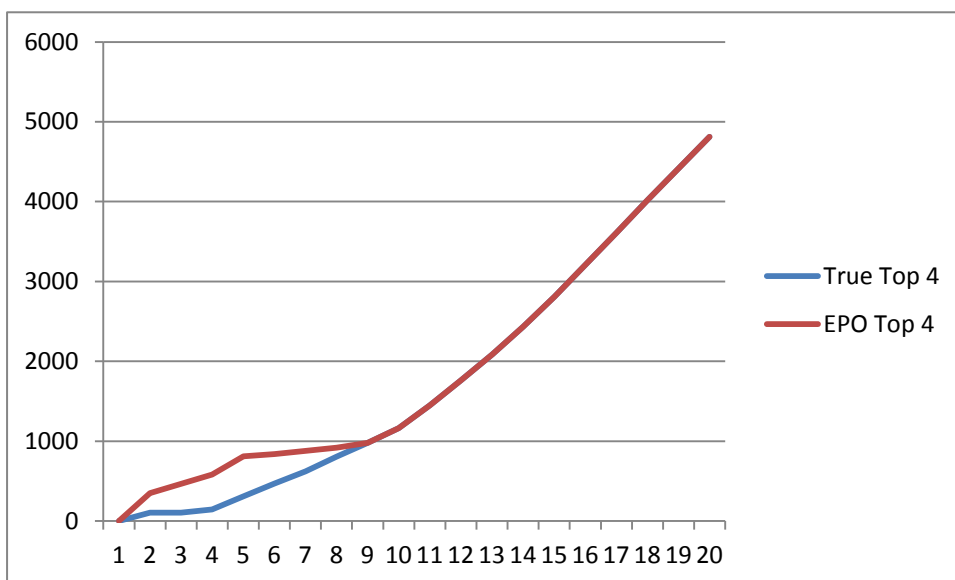


Table 1

Sub-paragraphs (b) and (c) of Article 12(3) point to two additional factors to be taken into account. The number of requests for unitary effect is taken into account in the simulation through the assumptions on penetration rates. The renewal, or maintenance, rate, however, is another essential element, both for patentees' behaviour and for the EPO income, which may not have been taken enough into account in the simulation. The maintenance rate over time depends not so much on the entry level as on the scaling of the renewal fees in the following years.

b) THE SCALING OF RENEWAL FEES IN THE FOLLOWING YEARS OF AGE OF THE EPUE

The simulations are a bit vague as to the assumptions made regarding the maintenance rate. It seems that the maintenance rate taken into account is intermediate between today's maintenance rates in the country having the highest maintenance rate (Germany) and the country having the lowest maintenance rate, although closer to the former. We believe that the objective should be to reach a maintenance rate at least equal to that of Germany today. There is no reason why, with an appropriate renewal fee schedule, patentees having opted for the unitary protection



would choose not to maintain the unitary patent where today they maintain the European patent in at least one country.

It is quite clear, however, that the TOP 4 scenario, when applied beyond the first few years, does not lead to an appropriate fee schedule. Table 2 below illustrates the point by comparing the scaling of renewal fees in the TOP 4 scenario with the scaling of current renewal fees in Germany.

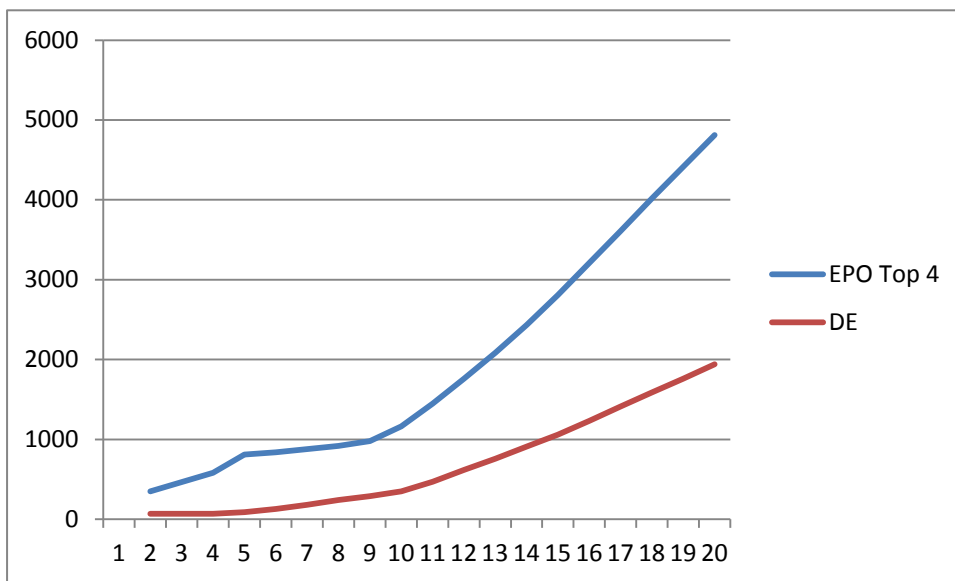


Table 2

There is no justification for such a strong divergence in the progressivity of the fees. The consequence on the maintenance rate of adopting the TOP 4 scenario in the later years would very likely be seriously negative. Not only that but, if one keeps in mind that the option for the unitary protection will be based on the scaling over time at least as much as on the entry level, the consequence on the penetration rate will also be seriously negative. In short, the attractiveness of the unitary protection would be severely diminished.

c) **BUSINESSEUROPE’S PROPOSAL**

Based on the above considerations, **BUSINESSEUROPE** recommends that the fee schedule adopted for the entry into force of the unitary protection be generally as shown on Table 3. Annex 1 provides the figures leading to the curve shown as Proposal.

The entry level would be similar to the true TOP 4 figures with a few adjustments while, for later years, the progressivity would be similar to the progressivity in Germany. We believe that such a fee schedule is likely to be reasonably attractive to patentees both at entry level and beyond, thereby capable of maximizing the maintenance rate as well as the penetration rate, two factors that are important for the amount of income derived by the EPO and also for the success of the new scheme.



It should be clear that we propose this fee schedule as a starting point for the entry into force of the unitary protection. The implementation of the schedule will have to be carefully monitored in terms of ensuring a balanced budget of the EPO as requested by Article 12 (1) (c). It is essential for BUSINESSEUROPE that the coming into existence of the Unitary Patent does not result in an unbalanced EPO budget that would have to be compensated by an increase of fees in the pre-grant phase.

The simulations conducted so far have done their very useful job of providing a broad framework for this. We would welcome additional simulations addressing i.a. our proposal and its effect on the balance of the EPO budget, under different hypotheses of penetration and maintenance rates. However, only the reality check offered by the actual implementation of the fee schedule will make it possible to properly assess the true budgetary impact of the co-existence of European patents with unitary effect with the other European patents.

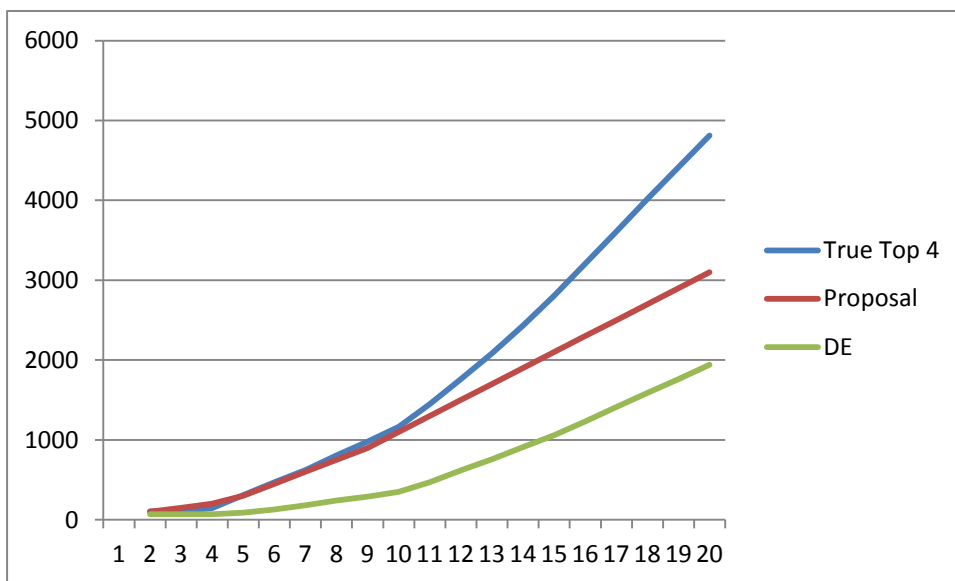


Table 3

For a more complete picture, Table 4 below positions our proposal with respect to the TOP 3 hypothesis as well.

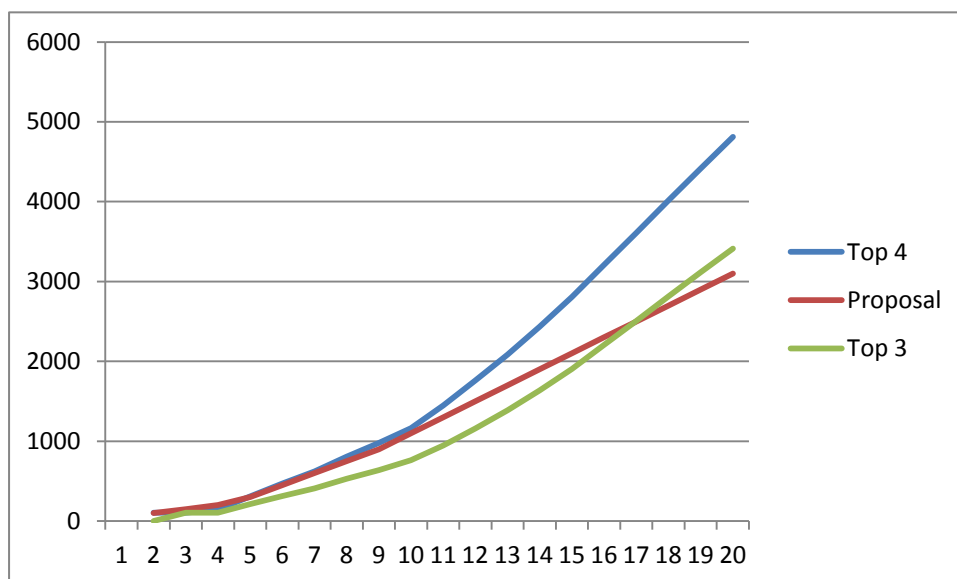


Table 4

d) COMPARISON WITH MAINTENANCE COSTS IN OTHER GEOGRAPHIES.

Although the comparison may not have a direct relevance to the determination of the appropriate fee schedule, it is useful to keep in mind that the European patent with unitary effect will not only be the most expensive in the world to obtain but also, even with our proposal, far more expensive to maintain than patents in other major regions. Looking at the situation in the US and in China, for example, it appears that

- to maintain a patent from OY 2 till OY 7, the cost is
 - zero in the US,
 - 875€ in China,
 - 1800€ in Europe
- to further maintain a patent till OY 11, the additional cost is
 - 1200€ in the US (to be paid at OY 8)
 - 1400€ in China
 - 4050€ in Europe
- to further maintain a patent till OY 15, the additional cost is
 - 2600€ in the US (to be paid at OY 12)
 - 2570€ in China
 - 7200€ in Europe,
- to further maintain a patent till OY 20, the additional cost is
 - 5400€ in the US (to be paid at OY 16)
 - 4700€ in China
 - 13 500€ in Europe.



ANNEX

Ordinal year	Proposal
2	100
3	150
4	200
5	300
6	450
7	600
8	750
9	900
10	1100
11	1300
12	1500
13	1700
14	1900
15	2100
16	2300
17	2500
18	2700
19	2900
20	3100