SC/4/15

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Munich, 06.03.2015

SUBJECT:	Proposals for the level of renewal fees for European patents with unitary effect
SUBMITTED BY:	President of the European Patent Office
ADDRESSEES:	Select Committee of the Administrative Council (for opinion)

SUMMARY

Renewal-fee levels for European patents with unitary effect having been analysed and explored using a wide range of simulations, the Office now presents, in the light of the Select Committee's discussions at previous meetings, two alternative proposals.

These proposals have the legitimate twofold aim of arriving at renewal fees low enough to be attractive to users and high enough to ensure a balanced budget of the European Patent Organisation.

The Select Committee is requested to give its opinion on which of the Office's two proposals for renewal-fee levels should be chosen.

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I. INTRODUCTION

1. Regulation (EU) No. 1257/2012 of 17 December 2012 on the creation of unitary patent protection lays down a number of criteria for setting the level of renewal fees. At the Select Committee's 5th meeting, in November 2013, the Office presented a full set of data on current validations of European patents, and has since created a simulation model to measure the financial impact of unitary European patents in the long term, once the system is fully established ("steady state").

2. The model has enabled it to estimate the impact of different renewal-fee levels. At the committee's five meetings in 2014, the Office has submitted 48 simulations covering various scenarios, based on its own assumptions and adjusted in response to requests from delegations and observers.

3. Having analysed and explored renewal-fee levels using the broadest range of simulations possible (see SC/38/14), and taken account of the discussions at past meetings, the Office now presents below two alternative proposals.

II. STRUCTURE FOR RENEWAL-FEE LEVELS

A. LEGAL CONTEXT

4. Article 12 of Regulation No. 1257/2012 sets out the factors to be considered when setting fee levels (for the precise wording, see Annex 1). Some of these factors are purely technical, others more political.

5. As pointed out throughout the discussion of renewal-fee policy over the last few years, the main task set by Article 12 is to arrive at a level **low enough to be attractive to users** and **high enough to ensure a balanced budget of the European Patent Organisation**.

B. RENEWAL-FEE STRUCTURE

6. To meet the requirements set out in Article 12(1)(a) (progressive nature), (2)(b) (market size) and (3)(a) (geographical coverage of current European patents), the Office proposes the following structure for setting unitary patent renewal fees:

   - years 3 to 5: the level of the EPO's internal renewal fees (IRF)
   - years 6 to 9: a transitional level between the IRF level and the year 10 level
   - from year 10, a level equivalent to the total sum of the national renewal fees payable in the states in which European patents are most frequently validated (TOP level).

7. Charging the IRF level for years 3 to 5 primarily ensures consistency in the fee scales applicable in the pre-grant phase (EPO fees covering 38 states) and the post-grant phase (unitary patent fees for 25 states). Then, as in all European systems of national law, a single scale of fees applies for the initial years of pending patent applications and for granted patents.

8. The main drawback of charging the sum of the national renewal fees of those countries in which European are most often validated, in the first few years would be that the fee for renewing a unitary patent in those years would be extremely low because, in some states, national renewal fees (which apply equally to national patents and to European patents validated in those states) are initially very low or non-existent until the fourth or fifth year.

9. The justification for charging very low or even no renewal fees for national patents in the first few years is that, in the vast majority of cases, the patent application is still pending during this period. A similarly low fee level for the initial years of a unitary patent could not be justified, however, because the unitary patent would be an already granted European patent, and post-grant income would be needed to recoup a substantial part of the total unit costs of the search and examination pre-grant work involved. That is also why the Office proposes to introduce a renewal fee for the second year in the rare but possible case of grant in the year of filing.

10. At the committee's meetings and during informal consultation of user associations, some argued that charging the IRF level in the initial years would discourage applicants from opting for unitary patents on the basis of a comparison with the costs for a validation of their European patent in just a few states.

11. It is true that, at first glance, paying the total sum of national fees for a small number of states (e.g. three to five) looks a more attractive proposition than the IRF level. However, in addition to paying national fees, users always incur a number of associated costs, in particular for translation and national validation, where charged, but also for hiring a local patent attorney or specialist firm to administer renewal-fee payments. Once these additional costs are also included, the difference between the sum payable for a classical European patent and a unitary patent is less marked; indeed, the unitary patent option is actually cheaper from year 6 on. In any event, once the additional costs are included the two amounts differ by only a few hundred euros, a negligible share of applicants' overall costs up to the granting of the patent.

12. In the second part of the fee structure, for year 10 onwards, the level is the total of national renewal fees payable in the most frequently validated states. The fees are highly progressive, particularly towards the end of the patent term. Whilst it is tempting to increase the fees for these later years, because that is when protection matures and is most profitable, the Office has taken on board the counterargument about the lack of flexibility in limiting geographical coverage at this later stage. In the classical European patent system, patentees who have validated their patent in an average number of states after grant can always abandon the protection state-by-state over the patent term, and in the later years often narrow it down to the three major European markets.

13. As they will lose this flexibility under the unitary patent protection in 25 states, they might be discouraged from opting for unitary protection if the fees for the last five years are prohibitive compared with those for just three to five of the bigger countries.

14. For year 10 onwards, the Office proposes to charge the total sum of national renewal fees payable in the most frequently validated states. This will reduce costs for users significantly, as their additional fee-administration charges will be considerably lower.

15. Based on this approach, the Office drew up simulations for the totals for three to seven states (TOP 3 to TOP 7). These simulations were submitted and discussed at length at the committee's five meetings in 2014 (see summary table in SC/38/14).

C. CONSULTATION OF USER ASSOCIATIONS

16. Before drafting its proposals, the Office informally consulted the associations which represent users of the European patent system, conducting bilateral talks with associations not only in Europe (epi, BUSINESSEUROPE) but also – since more than half of European patent applicants are non-Europeans – in the US (IPO, AIPLA), Japan (JPAA, JIPA) and Korea (KINPA).

17. The comments differed somewhat depending on the associations' geographical base and the users' specific technical or professional fields (patent attorney or industry), but there were some common threads.

a) Renewal-fee levels

18. The vast majority of user associations were in favour of the TOP 3 fee level, though some could just about accept TOP 4. Their representatives felt that the unitary patent would fail if fees were set at TOP 5 level or higher, because the large majority of users, who currently validate in three or four states, would then not opt for it.

19. Most of the associations stressed the importance of the fee level for those users who currently validate in only a small number of countries. These users would take into account purely financial criteria when deciding whether to opt for a unitary or a classical European patent. At the same time, although the substantial savings available would be a strong incentive to opt for unitary patents for patentees who currently validate in a large number of countries, these users might well choose not to do so if they had concerns about the decision-making practice of the future Unified Patent Court.

20. Another explanation for why most of these users regarded TOP 4 or below as an acceptable level was that they also needed protection in two other large European markets (Italy and Spain) not currently taking part in enhanced co-operation and hence outside the unitary patent. The large majority felt that the total cost of a unitary patent plus protection in those two countries should not be higher than the current cost of protection in six states.

b) Progressive nature

21. The user associations consulted expressed a preference for the lowest possible entry-level fees.

22. They were also against disproportionately higher fees towards the end of the patent term, because users would then be locked into an inflexible and expensive system that took no account of their current practice of selectively abandoning protection in the later stages.

c) Specific reduction for SMEs, universities and others

23. The user associations had misgivings about introducing a reduction for specific categories of applicants, such as SMEs, universities, research organisations and natural persons. Their preference was generally for an affordable level that was the same for all applicant categories.

D. RESULTS OF THE SIMULATIONS

24. Having consulted widely amongst user associations to establish fee levels they might consider attractive, we turn to the second element of the equation: ensuring that the EPO's budget is balanced.

25. Annex 3 summarises and updates the simulations presented in SC/38/14 at the Select Committee's 12th meeting. For each proposed fee level, the table compares the EPO's financial situation in the steady state, in 2035, comparing estimated income levels for conventional European patents, if no unitary patent were introduced, with those for conventional European patents and unitary patents, taken together. For each assumption, this results in a lower or higher figure compared with the baseline (EP with no UP).

26. The simulations considered for each fee level and each validation class different penetration rates for the unitary patent, a base penetration rate, a lower penetration rate (more pessimistic than the base penetration rate) and a higher penetration rate (more optimistic than the base penetration rate). Annex 4 of this document indicates the different penetration rates which were considered.

27. For the TOP 3 fee level (internal renewal fees for years 3 to 5, transitional level for years 5 to 10, three countries altogether for years 10 to 20), the steady-state financial results are highly negative, i.e. between EUR -56m and EUR -82m, for all assumed penetration rates, with a UP market share between 29% and 51%.

28. For the TOP 4 and TOP 5 fee levels, the steady-state financial results show low deviation from the baseline: between EUR -24m and EUR +4m for TOP 4 and TOP 4 bis, and between EUR -6 m and EUR +31m for TOP 5, depending on the assumed penetration rate, with a UP market share between 18% and 46%.

29. Lastly, for the TOP 6 fee level, the steady-state financial results show upward deviation from the baseline: between EUR +6m and EUR +59m depending on the assumed penetration rate, and for UP market share between 18% and 41%.

III. PROPOSALS FOR RENEWAL-FEE LEVELS

30. Bearing in mind that fee levels need to be attractive to users whilst also ensuring a balanced EPO budget, the Office proposes **two alternative fee levels meeting both requirements**.

a) Proposal 1

31. The first proposal is to take the **TOP 4 level**, i.e. the sum for the four most frequently validated countries from year 10 whilst maintaining the level of EPO internal renewal fees for years 3 to 5, with a steady progression until year 10. In the customary way for EPO policy, the amounts have been rounded off to the nearest EUR 5. They also reflect national renewal fees as updated with effect from 1 January 2015, and euro exchange rates as at 11 December 2014 (see Annex III of CA/D 1/14).

32. This proposal is strictly in accordance with the EU Regulation's stipulation that the level of renewal fees, when first set, should be similar to that of national renewal fees for an average European patent taking effect in the participating member states.

33. Under this proposal, the renewal-fee scale would be as follows:

2nd year:	EUR 350	11th year:	EUR 1 460
3rd year:	EUR 465	12th year:	EUR 1 775
4th year:	EUR 580	13th year:	EUR 2 105
5th year:	EUR 810	14th year:	EUR 2 455
6th year:	EUR 855	15th year:	EUR 2 830
7th year:	EUR 900	16th year:	EUR 3 240
8th year:	EUR 970	17th year:	EUR 3 640
9th year:	EUR 1 020	18th year:	EUR 4 055
10th year:	EUR 1 175	19th year:	EUR 4 455
		20th year:	EUR 4 855

34. Over 20 years, that adds up to **EUR 37 995**, as shown by the table in Annex 2.

35. Annex 3 shows the financial results for various fee levels. For TOP 4, with penetration levels including validation classes 1 and 2 (TOP 4 bis) as described in SC/35/14, at steady state they show little deviation from the baseline, namely EUR -20m, EUR -3m and EUR +4 m for lower, base and upper UP penetration rates respectively, i.e. in a range **between -4% and +1%**.

b) Proposal 2

36. The second proposal is to take the **TOP 5 level**, i.e. the sum for the five most frequently validated countries from year 10 whilst keeping the level of EPO internal renewal fees for years 3 to 5, with a steady progression until year 10. **In addition a reduction for certain categories of patentees**, namely SMEs, natural persons, non-profit organisations, universities and public research organisations would be foreseen.

37. The proposal is fully in line with the fundamental objectives of the EU Regulation, i.e. provide unitary patent protection for patentees from the participating member states and other countries (recital 4) with renewal fees set at a level that will facilitate innovation and foster the competitiveness of European business whilst also taking into account the situation of specific entities such as small and medium-sized enterprises (Article 12(2) and recital 19).

38. Various legal systems worldwide already allow reductions for specific applicant categories, such as SMEs, natural persons and universities). The US for example has operated such a system for over 50 years, but similar systems can also be found in Asia (Japan) and, increasingly, Europe (CZ, FR, HU, LT, LV, PT) for one or more of the above categories.

39. Such fee reductions in respect of unitary patents would be subject to the same definition, administrative and verification rules as under the translation compensation scheme (see SC/35/13 Rev. 1) or the fee-reduction scheme under Article 14 and Rule 6 EPC as in force since 1 April 2014 (see CA/97/13 Rev. 1). But they would apply to all such entities, whether domiciled in or outside Europe. Introducing them would mean inserting new provisions into the rules relating to unitary patent protection, modelled for example on their Rules 8 to 11 governing the compensation scheme (see SC/30/14).

40. The Office proposes allowing these entities a 25% reduction on the renewal fees for years 2 to 10. In the light of the delegations' and observers' comments, the Office now presents a new proposal for a 25% reduction which – unlike the simulations in SC/25/14 – would not increase the fees for ineligible categories to recoup the cost of the reductions granted to the eligible ones.

41. Under this proposal, the renewal-fee scale would be as follows (the amount after the 25% reduction is shown in brackets, in italics):

2nd year:	EUR 350 (EUR *262.50*)	11th year:	EUR 1 790
3rd year:	EUR 465 (*EUR 348.75*)	12th year:	EUR 2 140
4th year:	EUR 580 (*EUR 435.00*)	13th year:	EUR 2 510
5th year:	EUR 810 (*EUR 607.50*)	14th year:	EUR 2 895
6th year:	EUR 880 (*EUR 660.00*)	15th year:	EUR 3 300
7th year:	EUR 950 (*EUR 712.50*)	16th year:	EUR 3 740
8th year:	EUR 1 110 (*EUR 832.50*)	17th year:	EUR 4 175
9th year:	EUR 1 260 (*EUR 945.00*)	18th year:	EUR 4 630
10th year:	EUR 1 475 (*EUR 1 106.25*)	19th year:	EUR 5 065
		20th year:	EUR 5 500

42. Over 20 years, that adds up to **EUR 43 625** and **EUR 41 655** for the **normal** and **reduced** level respectively, as shown by the table in Annex 2.

43. Although the total sum of renewal fees for SMEs etc. over 20 years would be higher under this proposal (TOP 5) than under proposal 1 (TOP 4) for the first **10 years** it would be lower (**EUR 5 910**, as opposed to **EUR 7 125**). Consequently, proposal 2 would provide SMEs, natural persons, non-profit organisations, universities and public research organisations with a lower entry level and real reductions in fee levels over the patent's first ten years of life, which would then discontinue over its remaining term.

44. Annex 3 shows the financial results for various fee levels. For TOP 5, with the reduction for SMEs etc. and varying penetration levels, the deviation from the baseline in the steady state would be EUR -8m, EUR +16m and EUR +26m for lower, base and upper UP penetration respectively, i.e. within a narrow range **between -2% and +5%**.

IV. SPECIFIC RENEWAL-FEE REDUCTIONS

45. Irrespective of the reduction for certain categories of applicants described above, Article 11(3) of EU Regulation No. 1257/2012 stipulates that *"Renewal fees which fall due after receipt of the statement referred to in Article 8(1) shall be reduced"*. This concerns **licences of right**, i.e. when the proprietor of a European patent with unitary effect files a statement (published in the Register) that he is prepared to allow any person to use the invention as a licensee in return for appropriate consideration.

46. Some legal systems in Europe provide for renewal fee reductions if the patentee offers licences of right. They were introduced in the 1950s and 1960s to encourage the transfer of protected technology through licensing agreements and so promote its use. They exist for example in Germany and the UK, where a 50% reduction is available once the licensing offer is made public. France also operated such a system, but abolished it in 2004.

47. It is difficult to assess the value and impact of this system in the countries concerned, but the figures available suggest that the number of cases involved is very small (about 2.5% of European patents in force in the UK, and about 3% of those in Germany).

48. In terms of geographical origin and technical field, the patent proprietors are non-European firms in 70% and 60% of cases (in the UK and Germany respectively), and mainly working in telecommunications, computers, audio technologies, vehicles and the car industry, i.e. fields in which cross-licensing is very frequent or even – for standard-essential patents – compulsory.

49. It thus appears that licences of right are used mainly for financial reasons, giving rise to lower renewal fees in areas where licensing is customary if not obligatory.

50. Clearly, however, the system could also benefit SMEs and universities lacking the human and financial resources to market the products they have patented.

51. The Office therefore proposes a **15% reduction**, under Article 11(3) of EU Regulation No. 1257/2012, in the renewal fees payable throughout the entire term of a unitary patent. That percentage would be attractive enough to help SMEs or universities looking for licensing partners, without creating a purely financial instrument for firms already engaged partly or even exclusively in licensing.

52. If SMEs were granted a reduction under fee-level proposal 2 above, it could be added, for the first few years (up to year 10), to the reduction allowed for licences of right. Financial simulations assuming an annual take-up by 5% of patent proprietors, and a reduction below 20%, show that the financial impact on the estimates in Annex 3 is **negligible**. That would have to be re-assessed if the reductions were higher.

V. REQUEST TO THE SELECT COMMITTEE

53. The Select Committee is requested to give its opinion on which of the two proposals for renewal-fee levels, put forward by the Office above, should be chosen.

54. On the basis of the choice made, the Office will then be able to submit, at a forthcoming Select Committee meeting, rules relating to fees for European patents with unitary effect.

ANNEX 1 EXTRACT FROM EU REGULATION NO. 1257/2012

Article 12

Level of renewal fees

1. Renewal fees for European patents with unitary effect shall be:

    (a) progressive throughout the term of the unitary patent protection;

    (b) sufficient to cover all costs associated with the grant of the European patent and the administration of the unitary patent protection; and

    (c) sufficient, together with the fees to be paid to the European Patent Organisation during the pre-grant stage, to ensure a balanced budget of the European Patent Organisation.

2. The level of the renewal fees shall be set, taking into account, among others, the situation of specific entities such as small and medium-sized enterprises, with the aim of:

    (a) facilitating innovation and fostering the competitiveness of European businesses;

    (b) reflecting the size of the market covered by the patent; and

    (c) being similar to the level of the national renewal fees for an average European patent taking effect in the participating Member States at the time the level of the renewal fees is first set.

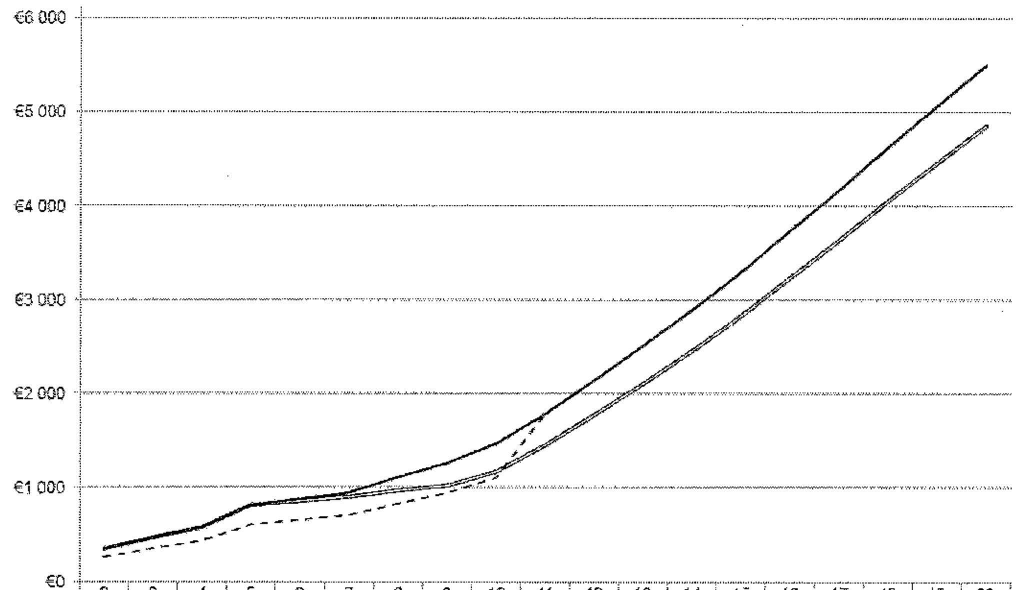
3. In order to attain the objectives set out in this Chapter, the level of renewal fees shall be set at a level that:

    (a) is equivalent to the level of the renewal fee to be paid for the average geographical coverage of current European patents;

    (b) reflects the renewal rate of current European patents; and

    (c) reflects the number of requests for unitary effect.

ANNEX 2 PROPOSAL FOR THE LEVEL OF RENEWAL FEES



	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total OY2-20
TOP 4	350	465	580	810	855	900	970	1 020	1 175	1 460	1 775	2 105	2 455	2 830	3 240	3 640	4 055	4 455	4 855	37 995
TOP 5 SME	262,5	348,7	435,0	607,5	660,0	712,5	832,5	945,0	1 106	1 790	2 140	2 510	2 895	3 300	3 740	4 175	4 630	5 065	5 500	41 655
TOP 5 LE	350	465	560	810	880	950	1 110	1 260	1 475	1 790	2 140	2 510	2 895	3 300	3 740	4 175	4 630	5 065	5 500	43 625

in € per OY	TOP 4	TOP 5	*SME*	EPO Internal Renewal Fees	25 MS
2	350	350	*262,50*	0	0
3	465	465	*348,75*	465	1 298
4	580	580	*435,00*	580	1 874
5	810	810	*607,50*	810	2 545
6	855	880	*660,00*	1 040	3 271
7	900	950	*712,50*	1 155	3 886
8	970	1 110	*832,50*	1 265	4 625
9	1 020	1 260	*945,00*	1 380	5 513
10	1 175	1 475	*1 106,25*	1 560	6 416
11	1 460	1 790	1 790	1 560	7 424
12	1 775	2 140	2 140	1 560	8 473
13	2 105	2 510	2 510	1 560	9 594
14	2 455	2 895	2 895	1 560	10 741
15	2 830	3 300	3 300	1 560	11 917
16	3 240	3 740	3 740	1 560	13 369
17	3 640	4 175	4 175	1 560	14 753
18	4 055	4 630	4 630	1 560	16 065
19	4 455	5 065	5 065	1 560	17 660
20	4 855	5 500	5 500	1 560	19 197
Total	**37 995**	**43 625**	**41 655**	**23 855**	**158 621**

ANNEX 3 SUMMARY OF FINANCIAL SIMULATIONS

in € '000	Lower UP Penetration				Base UP Penetration				Upper UP Penetration			
	UP income	EP income	Total	UP Market Share	UP income	EP income	Total	UP Market Share	UP income	EP income	Total	UP Market Share
Baseline (No UP)	0	501 020	**501 020**	**0%**	0	501 020	**501 020**	**0%**	0	501 020	**501 020**	**0%**
TOP 3	118 649	326 420	**445 069**	**29%**	179 581	249 878	**429 459**	**43%**	212 524	206 172	**418 697**	**51%**
Deviation to Baseline	118 649	-174 600	**-55 951**	**29%**	179 581	-251 142	**-71 561**	**43%**	212 524	-294 848	**-82 323**	**51%**
TOP 3 bis	125 664	321 706	**447 370**	**31%**	207 645	231 021	**438 665**	**50%**	233 572	192 029	**425 601**	**56%**
Deviation to Baseline	125 664	-179 314	**-53 650**	**31%**	207 645	-269 999	**-62 355**	**50%**	233 572	-308 991	**-75 419**	**56%**
TOP 4	112 160	365 324	**477 484**	**19%**	201 721	286 706	**488 427**	**34%**	248 972	243 000	**491 972**	**42%**
Deviation to Baseline	112 160	-135 696	**-23 536**	**19%**	201 721	-214 314	**-12 593**	**34%**	248 972	-258 020	**-9 048**	**42%**
TOP 4 bis	118 325	362 631	**480 956**	**20%**	219 650	278 793	**498 443**	**37%**	273 066	232 394	**505 460**	**46%**
Deviation to Baseline	118 325	-138 389	**-20 064**	**20%**	219 650	-222 226	**-2 576**	**37%**	273 066	-268 626	**4 440**	**46%**
TOP 5	124 727	370 790	**495 517**	**18%**	230 263	290 805	**521 068**	**34%**	285 194	247 099	**532 293**	**41%**
Deviation to Baseline	124 727	-130 230	**-5 503**	**18%**	230 263	-210 215	**20 048**	**34%**	285 194	-253 921	**31 273**	**41%**
TOP 5 incl. SME reduction	122 474	370 790	**493 264**	**18%**	226 103	290 805	**516 908**	**34%**	280 042	247 099	**527 140**	**41%**
Deviation to Baseline	122 474	-130 230	**-7 756**	**18%**	226 103	-210 215	**15 888**	**34%**	280 042	-253 921	**26 121**	**41%**
TOP 6	136 643	370 790	**507 433**	**18%**	252 261	290 805	**543 066**	**34%**	312 440	247 099	**559 539**	**41%**
Deviation to Baseline	136 643	-130 230	**6 413**	**18%**	252 261	-210 215	**42 046**	**34%**	312 440	-253 921	**58 519**	**41%**

ANNEX 4 SUMMARY OF PENETRATION LEVELS

UP Fee level	TOP 3			TOP 3 bis			TOP 4			TOP 4 bis			TOP 5, TOP 6		
UP Market Assumptions	Lower	Base	Upper	Lower	Base	Upper	Lower	Base	Upper	Lower	Base	Upper	Lower	Base	Upper
Penetration rates															
1 Validation	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%	5%	7%	0%	0%	0%
2 Validations	0%	0%	0%	10%	30%	40%	0%	0%	0%	5%	15%	20%	0%	0%	0%
3 Validations	30%	50%	60%	30%	50%	60%	10%	30%	40%	10%	30%	40%	10%	30%	40%
4 Validations	30%	50%	60%	30%	50%	60%	30%	50%	60%	30%	50%	60%	30%	50%	60%
5 Validations	50%	65%	75%	50%	65%	75%	30%	50%	60%	30%	50%	60%	30%	50%	60%
6 Validations	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%	30%	50%	60%
7 Validations	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%
8 Validations	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%
9 Validations	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%
≥ 10 Validations	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%	50%	65%	75%