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The Unitary Patent System – What’s Up Next? – The great challenge of fixing the fees to fit the needs of the user

Thorsten Bausch (Hoffmann Eitle) · Thursday, January 3rd, 2013

Following the positive vote by the European Parliament on 10 December 2012 and the [European Council of Minister’s adoption of the Regulation EU/1257/2012 on the Unitary Patent](#) and the [Regulation EU/1260/2012 on Translation Arrangements](#) on 17 December 2012 and their publication in the OJ L 361 of 31 December 2012, the legislation process for the Unitary Patent has essentially been completed as far as the EU organs are involved. The next key step will be the signing and ratification of the [Agreement on the Unified Patent Court \(“UPCA”\)](#). Only if at least 13 Member States ratify the Agreement, among them the three states having the highest EP application figures (currently Germany, France and the UK), will the Unified Patent Court enter into force and the Regulation on the Unitary Patent apply.

Whether the ratification process of the UPCA will be successful must at this stage be considered as mere conjecture. On the one hand, it is a fact that the EU legislation process could be successfully concluded (save for ES and IT), i.e. that representatives of the governments of all of the states except Spain and Italy have approved the current texts. On the other hand, the national parliaments have not been involved in this process as of yet (the German Parliament, however, has received reports and documents on the patent package). And there has been at least one event in the past, i.e. the Community Patent Convention, where an attempt to establish a true Community patent failed in the end in the ratification process. Indeed it has been reported that the Polish and the UK parliaments have expressed serious concerns about these regulations. If a majority but not all Member States sign the UPCA, the UPCA will enter into force for less than 25 states and the regulations covering the patent with unitary effect will only be applicable for those states.

Next, and ideally before the beginning of the ratification proceedings at the national parliaments, the amount of annuities for the future Unitary Patent and their distribution, as well as the costs and fees for the Unified Patent Court will have to be fixed.

Given that the protagonists of the Unitary Patent have always claimed that the users of the UP system, particularly small and medium entities, will enjoy substantial savings when using the UPS, this is bound to become interesting and perhaps even a real challenge to the acceptability of the entire system. In a way, it is still remarkable that the EU Commission, Council and Parliament have made such full-bodied promises to SMEs without ever presenting even a rough idea of a budget for the UPC or any concrete figures for the future annuities or deciding who is to pay for it. The actual difficulty in coming up with such figures may become even more complex if not all of the 25 Member States actually ratify the UPCA. Clearly one would assume this to have

consequences for the Court's budget and the respective fees. Moreover, a Unitary Patent that covers only 13 of the 27 EU Member States (to name but one extreme) should be expected to be significantly less valuable than a patent that has a unitary effect for all 25 or even 27 Member States.

The actual time-schedule for the next steps is roughly as follows: In the first half of 2013, a diplomatic conference will be held for the signing of the UPCA. Once the Agreement has been signed, the ratification process by national parliaments will start. Ratification proceedings might begin sometime in the second half of 2013, hopefully after costs and fees and their distribution have become clear. With regard to the amount of renewal fees, the [study of van Pottelsberghe/Danguy](#) ("P/D") may be of help.

1. Renewal Fees

A newly established Select Committee of the Administrative Council of the EPO (Art. 145 EPC) will fix the fees. As for the basic approach, the Select Committee will have to consider the [Statement of the Member States of 14 December 2012](#). According to this, the aim is to allow all participating Member States to retain their current renewal fee income, while at the same time ensuring that those Member States which currently have a low renewal fee income will receive a significant increase in their income.

Further, the criteria laid down in Article 10 et seq. of the Regulation on the Unitary Patent (UPR) are to be observed. According to this, the renewal fees shall be progressive throughout the term of UP protection (Art. 12 (1) (a) UPR), shall cover the administrative costs (Art. 12 (1) (b) UPR), and are to ensure that the EPO has a balanced budget (together with the pre-grant fees). The level of fees shall be set, taking into account the situation of SME, considering also the facilitation of innovation, reflecting the size of the market covered by the patent, and 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 (Art. 12 (2) (a) – (c) UPR).

The renewal fees should thus be set at a level that: (a) is equivalent to the level of the renewal fees 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 (Art. 12 (3) (a) – (b) UPR).

An average European patent is validated in six countries, but after five years only 60 %, after 10 years 45% and after 15 years only 25% of the filed patents still exist. Only a small fraction (about 6%) are renewed for 20 years (P/D, 6, 7). On average, an EP is upheld for 11 years.

One proposal is to calculate the renewal fees for the UP on the basis of the 2 or 4 (or more) most frequently designated countries. An alternative proposal is to take "three annual German renewal fees" progressive for 20 years as a basis, since the German annual fees are a bit higher than in other Member States. An alternative approach would be to rely on a starting fee of € 600 on year 6 of the patent age and then add, for instance, annually € 200 (P/D, 14). These approaches take into consideration the above-mentioned Art. 12 (3) (a) – (b) UPR.

A relatively low level of fees would limit the propensity to "game" the system, whereby applicants, targeting only a few countries would be tempted to stay in the current system of the European Patent Convention (P/D, 16).

Under the assumption that an applicant X is mainly interested in patent protection in DE, UK, NL and FR, we have compared the fees due under the EPC and under the Unitary Patent system based on the two approaches, i.e. (i) the “three German annual fees” and (ii) “€ 600 + annually 200 €”.

(a) Pre-grant costs will probably be the same for an EP and a UP, i.e. filing, search, examination, designation and grant fees amounting to roughly 4,500 € (for direct EP applications) plus patent-attorney fees. The validation of an EP in DE, UK, NL and FR currently costs from 30 (NL) to 60 (DE) Euros official fees. There is still no proposal on the table for the UP validation fee.

(b) Assuming the application is drafted in English, both for an EP and an UP, a translation of the claims into German and French will become necessary.

Additional costs will be incurred with regard to the UP during a transitional period of up to 12 years, since the claims and the specification will need to be translated into a “language of a Member State” (Art. 6 (1) (b) of the Translation Regulation). In contrast, if a current EP is validated in DE, FR, UK and NL, only a translation of the claims into Dutch is necessary, since all states have signed the “London Agreement”. Depending on the number of pages of the UP, a translation into another Member-State language may be quite a costly exercise.

(c) With regard to an EP validated in DE, UK, FR and NL, the renewal fees between the 5th and the 11th years will amount to 5,818 €. The level of renewal fees of the UP between the 5th and 11th years will amount to € 5,250 based on “three German annual fees”; it will amount to € 4,200 (6th to 11th years) based on the approach “€ 600 + € 200 annually”.

As can be seen, the proposed fees of “three German annual fees” or the approach “€ 600 + € 200 annually” seems to be the amount companies are basically willing to pay in the current system (P/D, 16). Further, this amount seems to be internationally competitive and provide a balanced budget for the EPO (P/D, 16).

However, considering the “Statement of 14 December 2012” and Articles 10 et seq. of the UPR, it would not come as a big surprise if higher renewal fees are fixed in the end. This would only be reasonable if companies find it of value to acquire patent protection in as many European Member States as possible. This, however, seems doubtful when looking at the present EP practice. It is therefore to be expected that the actual level of renewal fees will have a great impact on the acceptance of the UP in the future.

In this context, it must be considered that the UP, as currently set up, will not cover all EPC countries, and that applicants will often not only be interested in the markets of the UP Member States, but also in the markets of other EPC Member States not adhering to the UP system, such as, for instance, Spain, Italy, Switzerland, Turkey, etc. This will drive the actual costs up. For instance, should a company be interested in the markets of IT, ES and CH in addition to the markets of DE, UK, FR, NL, the translation costs for the claims and specification into Italian and Spanish and additional renewal fees of € 3,380 (5th to 11th years) will accrue. Companies will have to carefully calculate whether they really need UP protection and whether they can afford it in addition to the costs for protection in non-UP countries.

To let the UP become a success, it would be wise not to fix the renewal fees much higher than “three annual German fees” or “€ 600 + € 200 annually”. As a consequence, it is to be assumed that the expectations of the Member States laid down in the “Statement of 14 December 2012” cannot be realized, and that Member States with more frequent EP validations will most probably

loose income (provided EP validations will decrease).

With regard to the relatively high pre-grant fees, it is proposed to put in place a 50% reduction for SMEs or YICs (young innovative companies) (about 15% of the EP applicants) as is done in the US or in Japan (P/D, 23). However, the EPO has not yet seriously taken up this proposal.

2. Costs and Fees for the Unified Patent Court

With regard to the fees of the Unified Patent Court, it is said that a flat rate for cases with a lower value in dispute and value-based fees are under discussion.

With regard to the possible costs of the Unified Patent Court, the decision makers have stated that they will consult the [study of Prof. Harhoff of 2009](#) (“H”). However, this study will likely not be of much help. It assumes operating costs of € 27.5 million (H, 36) (39 judges, staff, IT) for the Court. Whether 39 judges is realistic remains to be seen. In any case, the study is incomplete. The costs for the fourth judge in the first instance, judges of the Appeal Court, internal translation costs, travel expenses, experts, arbitration center, mediation center, training programs, buildings and their operating costs, and legal aid were not taken into consideration. Furthermore, the study does not provide any proposals with regard to the Court’s fees.

The recent experiences with Switzerland’s new patent court show that in all cases handled so far it was a nullity plea or a counterclaim that was raised. This is to be contrasted with the present rate in Germany: In only about 25% of the infringement cases is an invalidity action raised as a consequence of the bifurcated system (see H. 27, 28). It must therefore be assumed that many or even most first instance UPC proceedings will be dealt with by four judges (among them one technical judge). If this is the case, the costs and duration of the proceedings will be significantly higher than, for instance, present court proceedings before a German civil court deciding just on infringement. In addition to this, since the procedural rules will be new and complex, it can be assumed that the proceedings will also become more complex and, consequently, that the judges will not be able to handle 25 cases per annum but fewer (H., 35). With regard to court fees, please see also [our contribution of 7 November 2011](#). Further, the flexible [court fees of the new patent court of Switzerland](#) might be of interest. It should also be discussed whether reimbursable attorneys’ fees should be fixed.

The Unified Patent Court is to be subsidized by the Member States in the first seven years proportionally to the number of European patents having effect in the territory of the respective state. In the long run, however, the plan is that it will be basically self-financing (Art. 19 (3),(4) UPCA). At least for the first seven years, Germany will basically have to pay the largest contribution for the Unified Patent Court system. Calculations and budgeting will become difficult due to many factors. For instance, Member States setting up a local division shall provide the facilities and administrative support staff necessary for that purpose (Art. 19 (1) UPCA). However, it is presently unclear how many Member States are willing to set up one or several local divisions. This will obviously have an impact on the number of judges on the payroll and, hence, on the overall budget. So far, Germany, Finland, Denmark, Sweden and Portugal have clearly indicated interest; in addition France, UK and Germany will have to share the costs for the Central Division. It will be interesting to see how happy the parliaments of the Member States will be when “Europe” attempts to impose additional costs on the national taxpayers; on the other hand, it is clear that the UPC is bound to fail unless the Member States take over a significant share of its costs, at least during the setting-up phase.

Therefore, there are once again interesting times ahead of us, and with that the authors of this blog wish all of their readers a happy, healthy and successful year 2013.

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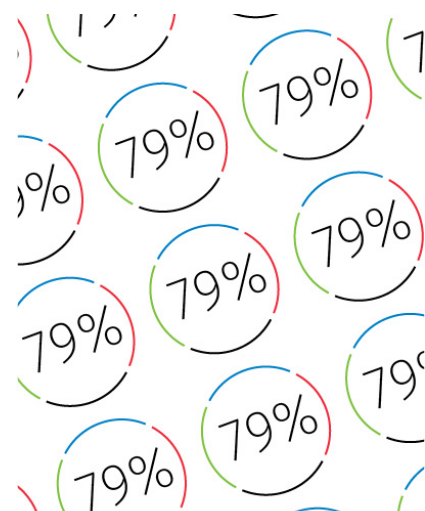
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