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## New EPO proposals for renewal fees Unitary Patent: will SMEs kill innovation?

Pieter Callens (Eubelius) · Monday, May 25th, 2015

In March 2015 the European Patent Office presented two proposals to the Select Committee for the level of renewal fees of the future Unitary Patent. The proposals were presented as the “Top 4” and “Top 5” models, i.e. equivalent to the national renewal fees of the 4, respectively 5 Member States where European patents are most frequently validated. Currently, these Member States are Germany, France, Great Brittan, the Netherlands and Sweden. The top 5 model contained a 25% fee reduction for SMEs during the first 10 years.

However, the two models only corresponded to the actual renewal fees in the top 4-5 Member States after year 10. For the years 3-5, the EPO had proposed to set the UP renewal fees at the level of the EPO’s internal renewal fees (IRF). For the years 6-9, the level would be a transitional level between the IRF level and the year 10 level of top 4 or 5. Business Europe calculated that because of the taking into account of the IRF level, the renewal fees would amount to the equivalent of the top 10 countries for the years 2 to 4, top 9 in year 5, top 8 in year 6, close to top 6 (year 7), close to top 5 (year 8) and around top 4 in the years 9 and 10. This would mean that, certainly for the first 10 years the level of renewal fees would be much higher than what applicants currently pay for average European Patents (validated in 3-4 countries). Business Europe had also criticized the prospective models estimating the penetration rate of Unitary Patents.

Not only the first 10 years, but also the total renewal fees for the full 20 years showed a rather expensive image. The total cost for 20 year renewal fees would be 37,995 EUR in the top 4 model and 43,625 EUR in the (non-SME) top 5 model. SMEs would pay 41,655 EUR in the top 5 model. As a reference, the total (non-discounted) renewal fees for a US patent are currently around 13.000 EUR. Moreover, these total costs are higher than the current costs for a European patent validated in Germany, France, Great Brittan and Italy (32,603 EUR) and even for a European patent validated in the same countries plus Spain (37,613 EUR).

Thorsten Bausch calculated that for applicants, validating their European patent in the three most popular countries (Germany, France and Great Brittan), their total cost for a Unitary Patent would be around 12,000 to 17,000 EUR more expensive. The Unitary Patent would off course have a much larger territory of protection, but it could be doubted if this enlargement of the territorial protection shall outweigh the additional cost. Not only SMEs shall take these costs into account, but also companies applying for large volumes of patents will calculate their total costs.

At least the criticism regarding the use of the IRF levels for the first 10 years, was shared by a large number of Member States in the Select Committee. If the renewal fees are high in the first years, this could discourage applicants from opting for unitary patents rather than for traditional European patents validated in a small number of Member States or even for national patents.

Recently, on 7 May 2015, the EPO launched adjusted proposals. These proposals aim at presenting "true" top 4 and 5 renewal fees. The model of the IRF levels during the first years has been abandoned and in the estimations of the penetration rates the EPO has added a new model, i..e. the Upper+ assumption, as well as the Business Europe assumption. These penetration rates are off course important for the national patent offices to calculate their estimated "income".

The new proposals take the sum of the renewal fees paid today for the four most frequently validated member states, from year 2 onwards until year 20. The sum of the total fees is 35,555 EUR in the true top 4 model, 41,955 EUR in the true top 5 model and 40,403 EUR in the true top 5 model with SME reduction (25%).

Regarding the fee reduction in the true top 5 model, the EPO proposes that the reductions would be available to all SMEs, natural persons, non-profit organizations, universities and public research organisations, whether domiciled in or outside Europe. The fee reductions would be subject to the same definition, administrative and verification arrangements as the compensation scheme for translation costs.

I have understood that (besides the European Commission) certain important member states (such as France) are heavily in favour of an SME reduction rather than taking into account the situation of SMEs in a (lower) harmonized renewal fee. In my sense, an SME reduction in an overall costly model will in practice have a very negative effect. First of all, it is way too clear that such reduction is intended to camouflage high levels of renewal fees, benefiting the national patent offices and not innovation and the European patent attitude at large. Secondly, in my opinion, the SME reduction will not benefit SMEs but instead mainly the large international groups. Constructions will be put in place to benefit as much as possible from the SME reduction. However, only big international groups will have the luxury of putting in place such constructions. Smaller companies putting in place an IP and an innovation strategy, will sometimes be confronted with the situation that they just fall out the SME conditions (which for the moment are unclear as well). The same goes for spin-offs of universities with a large research staff. Chances are that some of them will also fall outside the SME scope and therefore will have to rely (again) on their universities to register for patent protection, undermining their autonomy. Thirdly, what's the use of an SME reduction of such renewal fees leading to situations when it is much more cost-effective for an SME (which is – from a cost perspective – sometimes forced to take up short term patenting strategies) to register a classic European patent validated in three or four countries. Finalyly, the adjusted true top 5 model with SME reduction will still amount to 40,403 EUR total fees. Moreover, the SME reduction only represents a discount of 1,552 EUR compared to the "regular" fees.

Companies, including SMEs, are much better off with the true top 4 proposal. However, also this proposal is still almost 10,000 EUR more expensive than the total renewal fees for European patents currently validated in Germany, France and Great Brittan.

In my sense, the member states should understand that the future of Europe's international patent position is at stake. Rather than to focus on the income of their national offices based on status quo scenarios, the Member States should understand the ambitions of the Unitary Patent and the importance of a good start of such new system. In line with commercial strategies when launching a new product in the market, the Member States should aim at "volume" instead of "pricing", i.e. understand that a short term vision on national patent offices' income will be destructive for the long term potential success of the Unitary Patent.

The UK Chartered Institute of Patent Attorneys (CIPA) recently pointed out that the true top 4 model takes into account the renewal fees of the Netherlands. These renewal fees are the third most expensive in Europe (after Germany and Austria), which means that a true top 4 calculation for renewal fees would result in a fee level much higher than average patenting costs. CIPA is proposing that at the outset the renewal fees be set at a near top 3 ½ level as approximating the true average of renewal fees across all Member States. If fees would be set a higher level, CIPA again fears that many SMEs would choose to spend their limited budgets on filing at their national office, rather than take the opportunity for broad European protection.

Although it has been emphasized multiple times that the distribution of the renewal fees to the national offices may not be the main driver of the political discussions regarding the renewal fees, it is clear that this aspect plays an important role. The high level of national renewal fees in the Netherlands could pose a problem to the political negotiations. Because of the current high level, the Dutch patent office will have a lower "income" from the Unitary Patent fees. However, we can only hope that the Netherlands shall understand that the economic benefits from a competitive new patent system (combined with the benefits of the UPC) outweigh possible lower income from the renewal fees.

The upcoming negotiations of the Member States in the Select Committee shall have to show if Europe really wants to boost innovation…

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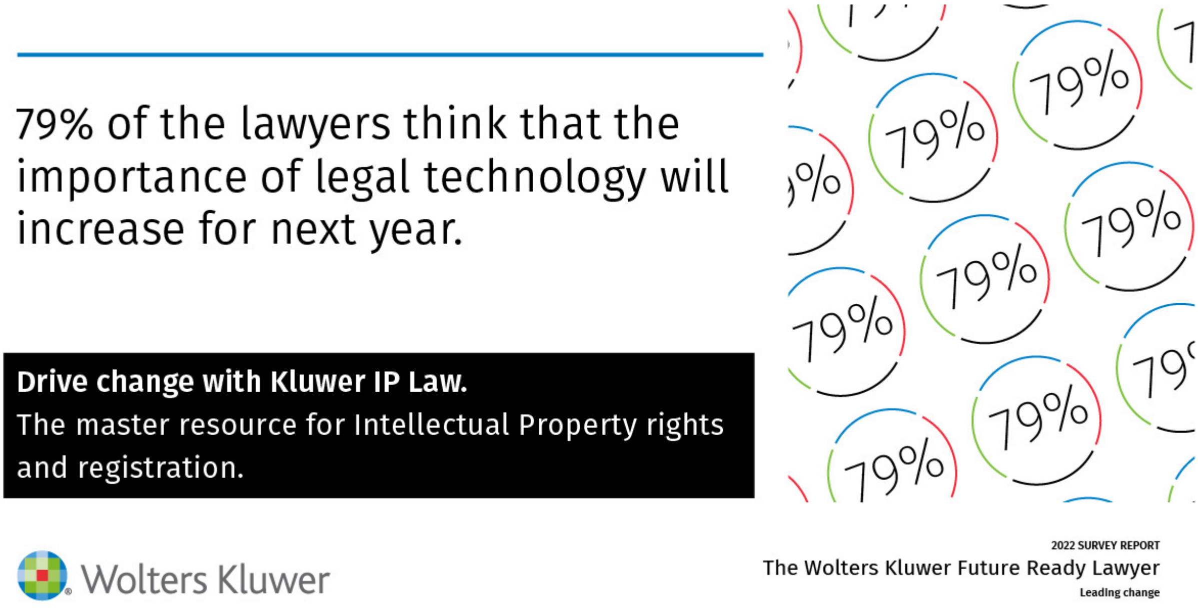


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