Kluwer Patent Blog

Es gibt nichts Gutes. Außer man tut es. Both within and outside the EPO.

Thorsten Bausch (Hoffmann Eitle) · Thursday, May 16th, 2019

One of the deepest insights in moral philosophy is provided by Erich Kästner's short rhyme „Es gibt nichts Gutes. Außer man tut es." (There's nothing good. Unless you do it.), which became one of the most cited proverbs in German. Mind Kästner's original punctuation. In the first sentence, he expressed fundamental skepticism that there is an absolute good. But then he allowed for the one, single exception: if you do it.

With that, let me turn straight to the European Patent Office. It has called for comments on its strategic plan. It seeks a dialogue with the public on quality and wants to receive direct feedback from every stakeholder so that it can improve its quality processes by reacting to clearly identified and real needs. Its President seeks to listen to its staff and pledged to renew social dialogue and ease tensions in his letter of motivation to the Administrative Council before he was elected. There are news on the financial side. And, finally, the EPO has recently published the Annual Report on the Boards of Appeal 2018, which also gives cause for a few comments.

Let us take things in turn – and sorry for the length of this blog. It will cover a lot.

Strategic Plan

In response to its calls for comments on the "Strategic Plan 2023", the EPO has already received many weighty comments from stakeholders, including very sensible proposals from Tobias Kaufmann (Bardehle Pagenberg) and a comprehensive open letter from its Central Staff Committee, which I recommend readers to study carefully in order to better appreciate the perspective of the EPO staff, which in the end must bear most of the burden of implementing its management's strategic objectives. It concludes with the following paragraphs:

> 5.1.1. The greatest asset of the EPO is its staff. It is not enough for management to just acknowledge this; they must live it, and not manage solely by judging staff members by unrealistic and inflationary performance targets. Staff members need working conditions allowing them to respect the provisions of the European Patent Convention.
> 5.1.2. Staff must be motivated by positive measures encouraging them to work at, perform well at, develop at, and stay at the EPO. Staff should not be persecuted, threatened and put under continuous pressure and/or treated under the "Challenging

> People" doctrine.
> 5.1.3. Continuation of current practice is simply not an option as it will expose the EPO to existential problems and annihilate the little trust that remains in the system.
> 5.1.4. Instead, sound, comprehensive long-term policy reduces risk for the EPO and Contracting States alike. Our reputation, and the future quality of our granted patents, will depend on these fundamental choices.

As I have blogged extensively about the EPO's current vision and mission last year, I think there is no point in writing another lengthy theoretical article about this subject. What matters in the end is what the EPO actually *does*. Collecting stakeholders' views is well and good, but if these views are of no consequence and EPO management continues as before, it will ultimately be a futile exercise. There is nothing good, unless you do it. As far as I am concerned, I would be fully content and more than happy if the EPO lived up to its current vision and mission. It does not necessarily need any new or further strategic plan beyond this. Make the EPO good again!

Quality

Evidently, the fundamental wisdom provided by Erich Kästner also applies to the subject of quality. While the new President displays much more openness to input from stakeholders on this subject than his predecessor, actions would speak louder than words. On the whole, I wish I had something more substantial and tangible to report here.

I and many others have extensively argued that quality of EPO products (e.g. searches and decisions to grant or refuse an application) must and will suffer if unrealistic production targets are set and are made the key parameter against which staff performance is measured. The VPP (the German Association of Intellectual Property Experts) discussed quality in its recent Spring Meeting in Bamberg and invited me to elaborate a bit further on this topic. My slides are available here (in German). They may give readers some insights into where I see a particular risk of quality erosion and which counter-measures I would suggest the EPO take. As always, I will welcome any comments and critique.

There was a lively discussion at the end of my lecture, during which a former EPO examiner stood up and explained to the audience how lengthy and cumbersome the process towards a decision of refusal is, compared to allowing the application to proceed to grant. Not only that, but you also make yourself unpopular by drawing two more of your colleagues into this struggle. I agree, but would add that a lack of adequate time may occasionally also lead to errors or misjudgments to the detriment of the applicant, e.g. if Art 123(2) is applied too photographically, or if the examiner introduces errors in the Druckexemplar at the Rule 71(3) stage.

Mr. Niclas Morey, the EPO's Principal Director of Quality, held the next lecture after mine. Contrary to my view, he was very adamant that speed is part of quality. While I appreciate that stakeholders expect the EPO to act timely and that even a very good official action is not particularly useful if the first one only comes after 10 or more years, I do not see the point in mixing the categories of quality (in content) and speed. For sake of intellectual precision and for very practical reasons, I think that a narrower understanding of quality would be more appropriate. Quality essentially describes the properties of a product and measures it against expectations in categories of good-bad, rather than in quantitative categories (fast-slow or high-low speed or turnover). A distinction between the two also helps to better understand and accept the inevitable

trade-off between quality and speed: the more you produce within a certain period of time (with the same resources, as the EPO has done for the last 5 years), the more errors will occur and the more quality will suffer, unless something specific or magic is done to lower the error rate. It is true, though, that (good) quality is only one element of customer satisfaction, the others being timeliness, adequate pricing, and achievement of the desired result (grant vs. rejection).

The EPO President himself seems to be a bit ambiguous on this point. On the one hand, he blogged on 8 October 2018 that timeliness is an essential part of the quality of a product.
On the other hand, he also wrote the following on 26 July 2018:

> This [efficiency] has been a strategic focus at the EPO before – and I firmly believe we have to continue on this path. But it increasingly appears that the issue of efficiency is actually just one in a triangle of three closely-linked factors that will keep our organisation on track. The other two are quality and long-term sustainability. All three depend on each other and I'm convinced that the EPO's optimum performance is located between all three. So we'll be making further assessments of this organisation, such as audits, and forecasts, to help us determine exactly where we should be located between quality, efficiency and long-term sustainability.

In my humble view, speed rather belongs into the category of efficiency (output per time) and is indeed one of the factors that influence the EPO's performance, which in the end is measured by e.g. customer satisfaction surveys. If so, however, speed cannot be part of "quality" at the same time. I would be very much interested in readers' views on this question. Am I on the wrong track here? I readily concede that I am not an expert on quality measurement and optimization. I am also aware that the term "quality" has no single, generally accepted meaning. Nonetheless, there is quite some literature on the subject of patent quality and, to the extent I have read it, my impression is that most scholars tend to be on my side rather than on the EPO's.

Just as an example, I would recommend for your reading the fine article "Irrational Ignorance at the Patent Office" by Michael D. Frakes and Melissa F. Wasserman, which is available online. It mainly concerns the USPTO, but there is a lesson to be learned for all patent offices. I will only quote two paragraphs from this extensive paper:

> Providing more systematic support, our prior empirical work tested the extent to which patent examiner time allocations are causing examiners to grant invalid patents and found that examiners were indeed granting patents of dubious quality because they are not given sufficient time to review patent applications.

And (page 110)

> We found that as an examiner is given less time to review an application—as identified by these time-reducing promotions—the less active she becomes in searching for prior art, the less likely she becomes to make time-intensive rejections, and the more likely she becomes to grant the patent. The magnitude of the result is

> quite striking.

These findings of the US scholars seem pretty plausible to me. What is more, they are, as I argued in my lecture, also backed up by evidence and/or at least indicia from the EPO.

Be that as it may, Mr. Morey made it abundantly clear to the VPP audience that the current EPO definition of "quality" includes speed. I wonder whether it follows from this understanding that the more examiners produce per unit time, the better their "timeliness" and, consequently, their overall "quality" will be? This may be something to take up with the EPO in the future. As a practical matter, Mr. Morey announced that by the end of this year further internal and external consultations with users will follow to determine a common understanding of the term "quality" .

All well and good, but the inconvenient truth remains: there is nothing good, unless you do it. Do we have half a year to discuss with users what quality is, or should we rather do something to improve it in the meantime? –-

One silver lining in so far, however, was Mr Morey's message that the EPO's production targets for this year will be (slightly) reduced relative to the 2018 targets. Okay. Every big journey starts with a small step.

Social Dialogue

Same here. The latest news on this front is an open letter sent by the Central Bureau of the Staff Union of the EPO to the EPO President and the members of the Administrative Committee. This letter goes to show how difficult it is to resume a genuine dialogue without a minimum of trust-building actions to begin with, such as settling the previous administration's sanctions against several prominent SUEPO leaders. SUEPO consider these sanctions unlawful and feel supported by three decisions of the Administrative Tribunal of the ILO.

Whatever the merits of SUEPO's position may be, this letter somehow prompted me to check Wikipedia for the keyword „amnesty". This proved to be a very interesting and educational reading, providing a lot of food for thought. For example, I learned (from the German version) that there was a time when it was customary for incoming French presidents to proclaim an amnesty for certain kinds of prisoners, mostly those who had been found guilty of lesser offenses, or political prisoners. The same tradition existed in England upon coronation festivities and other solemn occasions. I also learned that an amnesty may generally be extended when the authority decides that bringing citizens into compliance with a law or policy is more important than punishing them for past offenses. The general purpose of amnesty is to help end a conflict.

I do not really know what exactly the SUEPO leaders are accused of and whether they did anything wrong. Considering the EPO's history during the Battistelli era, I have my doubts (based on verifiable facts, as the Corcoran story shows) that the severe sanctions against the SUEPO leaders were justified. But even if they were, would it not now be an excellent time for the new president to make peace with the staff union and settle the sanctions against its leaders? At least I would interpret this as a sign of prudence. It would help to foster the important objective of regaining the trust of the staff, enhance their motivation and ultimately promote quality. I would argue that quality can only be sustainably kept or increased, if those who are to deliver it feel motivated, rather than threatened and placed under pressure.

Mr Campinos has now been in power for almost one year. He has proclaimed that he is interested in restoring the social dialogue in the EPO. Now would be a good time to put actions to words.

Financial Sustainability

There was a discussion on this blog about a year ago on whether it would be appropriate for the EPO to entrust a private asset management firm with bringing at least part of the EPO's assets, the so-called "EPO Treasury Investment Fund" or EPOTIF on the stock and derivatives market. EPOTIF comprises an impressive approximate 2.5 billion (no typo!) Euros. I make no secret of the fact that I was and still am very skeptical about this project, in particular in view of the associated risk and the price tag which has been said to come with it. But who am I? The EPO apparently did it anyway.

A blog by some resurrected cat who seems to have some EPO insider information has now published the following:

> A few days ago, the financial status report was published. Within that report, the following gem was found:
>
> In 2018 the Office transferred its legacy bonds portfolio to the EPO Treasury Investment Fund (EPOTIF) which holds the funds in line with the Strategic Asset Allocation approved by the BFC. As at the end of 2018 the total value of EPOTIF units was € 2 460m, which includes a revaluation loss for the year of € 97m.
>
> Just after two days that sentence was redacted, it now reads:
>
> In 2018 the Office transferred its legacy bonds portfolio to the EPO Treasury Investment Fund (EPOTIF) which holds the funds in line with the Strategic Asset Allocation approved by the BFC. As at the end of 2018 the total value of EPOTIF units was € 2 460m.

I leave it there. Read the original article for more details and the cat's take of this redaction. At the risk of stating the obvious, can I remind everyone that putting money on the stock market involves a considerable risk. The MSCI AC world stock market index was at 584 points on 1.7.2018, but had fallen to 532 by 31.12.2018. What does this mean? Well, for example if you had invested € 1 billion in MSCI shares on 1st of July, you would have lost € 89 million by 31.12.2018. Is this what the EPO asset fund managers have done?

If so, the only good news is that the MSCI was at 593 on 15.5.2019; thus the EPO would have made a small profit until now anyway (unless this profit margin is eaten up by its (private) asset managers).

I wonder whether the Administrative Council is really aware of this (risky) strategy? Would any of the AC heads of the national patent offices be allowed to run his/her patent office like this? Should the EPO be run like a private company? Is this part of the Strategic Plan 2023? And who pays if something goes seriously wrong and there is a crash on the stock markets when the EPOTIF money is needed to pay out staff pensions?

I think it is legitimate to ask these questions. And should the underlying facts be inaccurate, I would be happy to publish a correction. Transparency for the public in this area is unfortunately quite limited.

Boards of Appeal

Finally, a few words on the Boards of Appeal who recently published their Annual Report 2018 which is downloadable here. I recommend reading it in full and will not repeat much of what it says here. Just two points:

The Report mentions the ambitious goal to settle 90% of cases within 30 months of receipt and to reduce the number of pending cases to less than 7 000 by 2023. This is planned to be accomplished by (i) increasing the efficiency/productivity of the Boards of Appeal by 32% as from 1st January 2017 and (ii) the allocation of additional resources "for a limited period of time". I am 100% happy with (ii) and the fact that finally (!!!) all vacant posts for technically qualified members have been filled up and the Administrative Council has even approved 23 additional technically qualified member posts for the 2019 budget, and has positively noted the request for another 16 of such posts for the 2020 budget. This is definitely a big step into the right direction, and I just wonder (a) why this should only be for a limited period of time and (b) why the objective is set at 30 months? From the parties' perspective, the appeal time should be significantly shorter. Somewhere between 12 and 18 months would be desirable.

The Report is commendably honest by acknowledging that despite the above objective of 30 months, backlog and pendency will nevertheless continue to grow in the short term, due to a large increase in incoming cases (which in turn is the paradoxical result of the EPO's myopic "production über alles" doctrine of the past few years).

However, I am a bit concerned about point (i) "increasing the efficiency/productivity" by 32%. This is not to say that I am against conducting appeal proceedings with maximum efficiency – on the contrary, this is a desirable objective. But there is a fine line between "cutting slack" and putting people under pressure. The Boards have already increased their productivity by 18% since January 2017. Whether much more will be achievable, e.g. by the planned new Rules of Procedure, and, if so, whether this will be perceived positively by users and BoA members, remains to be seen. I must confess that I am a bit in two minds on this front. On the one hand, I want appeal proceedings to be faster, but on the other hand, I am not prepared to sacrifice thoroughness and quality of the decision for speed. BoA decisions are too important for that. To give just one example, a decision that rules on all points in material dispute seems to me preferable over a decision where a significant number of the requests of a party or prior art references are not being considered for procedural reasons.

Section 4 of the Annual Report contains further food for thought. It draws attention to the fact that the reappointment of a member or chairperson is subject to a positive opinion and performance evaluation by the President of the Boards of Appeal (PBoA), who may also recommend Board members for promotion. This President is in turn appointed by the Administrative Council on a joint proposal made by the BoA Committee and the President of the European Patent Office (Rule 12a (1) EPC), i.e. not completely independent from the EPO management.

The PBoA has apparently set up a comprehensive performance evaluation system for members and chairpersons of the Boards of Appeal, which entered into force on 1 January 2018. The report

states:

> While both qualitative and quantitative indicators are used to ensure that a comprehensive assessment can be made, the focus is on quality.

Well and good, but the question again is whether "quality" is to include criteria such as timeliness, which is intrinsically related to speed and productivity? Moreover, how will the PBoA exercise his good judgment in the case of BoA members who write decisions of good quality, but are a bit on the slow side of the distribution curve? Will such members have to fear that they may lose their jobs (if they were previously national judges) or be re-assigned to a post in the Office if they were an EPO employee before joining the BoA?

And is this system compatible with security of tenure and thus with judicial independence? The Bundesverfassungsgericht (Federal Constitutional Court of Germany) was recently quite critical in regard to civil servants who are appointed as administrative judges for a certain period of time. Here is what the BVerfG wrote:

> 7. Verfassungsrechtlich nicht zu rechtfertigen wäre allerdings die Möglichkeit der wiederholten Ernennung eines Beamten zum Richter auf Zeit. Könnte nach Ablauf der Amtszeit über die Wiederernennung für eine weitere Amtszeit entschieden werden, so würde die Fortführung der richterlichen Tätigkeit dem kontrollierenden Zugriff der Exekutive geöffnet; das zum Schutz der richterlichen Unabhängigkeit geltende Verbot der Entlassung, Absetzung oder Versetzung von Richtern (Art. 97 Abs. 2 Satz 1 GG) könnte umgangen werden. § 18 VwGO ist deshalb verfassungskonform dahin auszulegen, dass die erneute Bestellung eines Richters auf Zeit nach dem Ablauf seiner Amtszeit ausgeschlossen ist.

In my translation: "However, the possibility of a repeated appointment of a civil servant as a temporary judge would not be justifiable under constitutional law. If, after the expiry of the term of office, a decision could be taken on the reappointment for a further term of office, the continuation of the judicial activity would be subject to the controlling access of the executive branch; the prohibition of the dismissal, dismissal or transfer of judges (Article 97.2 sentence 1 of the Basic Law), which serves the protection of judicial independence, could be circumvented. § 18 of the Code of Administrative Procedure must therefore be interpreted in conformity with the constitution as meaning that the renewed appointment of a temporary judge after the expiry of his term of office is excluded."

And let us further remind ourselves what the CJEU recently had to say about judicial independence:

> 44 The concept of independence presupposes, in particular, that the body concerned exercises its judicial functions wholly autonomously, without being subject to any hierarchical constraint or subordinated to any other body and without taking orders or instructions from any source whatsoever, and that it is thus protected against external interventions or pressure liable to impair the independent judgment of its

> members and to influence their decisions (see, to that effect, judgments of 19 September 2006, Wilson, C 506/04, EU:C:2006:587, paragraph 51, and of 16 February 2017, Margarit Panicello, C 503/15, EU:C:2017:126, paragraph 37 and the case-law cited).

Of course, I know that BVerfG and CJEU jurisprudence are not directly applicable in the EPO, but I doubt that the EPO would take the position that Board of Appeal members do not need to satisfy this standard. I am no insider, but I would strongly assume that arguments along these lines will also play a role in the pending four constitutional complaints, wherein the key argument is that redress before a proper court should be available against decisions by the European Patent Office, and that the Boards of Appeal do not satisfy the constitutional requirements that an independent court must meet.

Yet another issue in this regard might arise from the fact that the new technical members of the Boards of Appeal will not be put into new Boards, but will be assigned to the existing Boards. This helps to save costs, as there will be fewer chair posts relative to the overall number of BoA members. However, a side effect of this change will be that the individual boards will be (much) larger than previously. It is to be expected that many hearings will not be conducted under the chair of the Board's regular chairperson, but of his/her deputy chairperson.

This raises another question under German constitutional law, i.e. the question whether it is sufficiently clear *ab initio* which Board member will be assigned to which case. Art 101 of the German Basic Law stipulates succinctly:

> (1) Extraordinary courts shall not be allowed. No one may be removed from the jurisdiction of his lawful judge.

Who is the "lawful judge" according to this Article? This has already been subject of quite a number of decisions by the Bundesverfassungsgericht. In one case, reported in BVerfGE 95, 322, it even came to an en banc decision of the Bundesverfassungsgericht, which is an extremely rare event. The full panel of the constitutional judges interpreted Art. 101 Basic Law as follows (decisions omitted):

> Mit der Garantie des gesetzlichen Richters will Art. 101 Abs. 1 Satz 2 GG der Gefahr vorbeugen, daß die Justiz durch eine Manipulation der rechtsprechenden Organe sachfremden Einflüssen ausgesetzt wird. Es soll vermieden werden, daß durch eine auf den Einzelfall bezogene Auswahl der zur Entscheidung berufenen Richter das Ergebnis der Entscheidung beeinflußt werden kann, gleichgültig, von welcher Seite eine solche Manipulation ausgeht. Damit soll die Unabhängigkeit der Rechtsprechung gewahrt und das Vertrauen der Rechtsuchenden und der Öffentlichkeit in die Unparteilichkeit und Sachlichkeit der Gerichte gesichert werden. Dieses Vertrauen nähme Schaden, müßte der rechtsuchende Bürger befürchten, sich einem Richter gegenüberzusehen, der mit Blick auf seinen Fall und seine Person bestellt worden ist.
>
> Aus diesem Zweck des Art. 101 Abs. 1 Satz 2 GG folgt, daß im einzelnen bestimmt

> werden muß, wer im Sinne dieser Vorschrift “gesetzlicher” Richter ist. Art. 101 Abs. 1 Satz 2 GG enthält also nicht nur das Verbot, von Regelungen, die der Bestimmung des gesetzlichen Richters dienen, abzuweichen. Die Forderung nach dem “gesetzlichen” Richter setzt vielmehr einen Bestand von Rechtssätzen voraus, die für jeden Streitfall den Richter bezeichnen, der für die Entscheidung zuständig ist. Art. 101 Abs. 1 Satz 2 GG verpflichtet demnach auch dazu, Regelungen zu treffen, aus denen sich der gesetzliche Richter ergibt.

In English:

> By the guarantee of the lawful judge, Article 101 (1) sentence 2 of the Basic Law wants to prevent the risk that the judiciary is exposed to inappropriate influences through manipulation of the judicial organs. It is to be avoided that the result of the decision can be influenced by a selection of the judges appointed to render the decision in an individual case, no matter from which side such manipulation originates. This is intended to safeguard the independence of the judiciary and the confidence of the citizen seeking justice and the public in the impartiality and objectivity of the courts. This confidence would be damaged if the citizen seeking justice had to fear facing a judge appointed with regard to his case and his person.
>
> It follows from this purpose of Article 101.1 sentence 2 of the Basic Law that it must be determined in detail who is the “lawful” judge within the meaning of this provision. Article 101.1 sentence 2 of the Basic Law therefore contains not only the prohibition to deviate from regulations which serve the purpose of determining the lawful judge. The demand for the “lawful” judge rather presupposes the existence of legal principles which designate for each dispute the judge who is competent for the decision. Article 101 (1) sentence 2 of the Basic Law thus also obliges the court to make provisions from which the lawful judge can be derived.

While the EPO’s Boards of Appeal do have a business distribution scheme allocating individual cases to individual boards based on abstract principles (IPC classes), I do not know whether individual boards also have internal case distribution schemes that determine the individual Board members allocated to an individual case a priori and based on abstract principles. I have heard that there were at least times when the cases were individually allocated *par ordre du mufti*, i.e. simply by an *ad hoc* decision of the chairman/chairwomen of the Board. If so, and provided that my understanding of the BVerfG jurisprudence cited above is correct, then a word of caution may be appropriate here: German constitutional principles would not allow such a practice. And if the Boards of Appeal want to be seen as court-like independent judicial body by the Bundesverfassungsgericht in the four pending constitutional appeals, it may be prudent to take such principles into due account.

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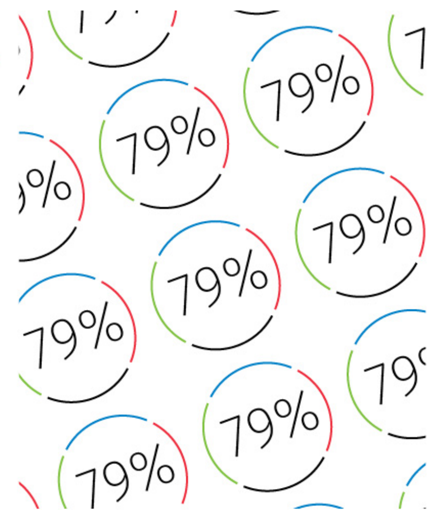

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