AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

February 11, 2015

Dr. Margot Fröhlinger
Principal Director
Patent Law and Multilateral Affairs
European Patent Office
Bob-van-Benthem-Platz 1
80469 Munich, GERMANY *Via email:* mfroehlinger@epo.org

Re: Unitary Patent Post Grant Fees

Dear Dr. Fröhlinger:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to follow-up on our January 28, 2014, letter to Mr. Jérôme Debrulle, Chairman of the Select Committee (copy attached), and our February 3, 2015, video consultation with you and others at the EPO regarding Unitary Patent post-grant fees.

AIPLA is a national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice and government service and in the academic community. AIPLA's members represent a wide and diverse spectrum of individuals, companies, and institutions, and are involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law. Our members represent both owners and users of intellectual property.

We thank you and your colleagues for the February 3rd consultation and for having sent us background materials on past validations and renewals of European Patents, and on Unitary Patent renewal fee models being considered by the EPO.

We applaud the steps that have been taken to create a Unitary Patent system in the European Union. In order for the Unitary Patent to be a success, it should make "access to the European patent system easier, less costly and legally secure," and "eliminate costs and complexity ….," as promised in EU Reg. No. 1257/2012, Recital (4).

As we stated orally and presented in our slides during the consultation, our discussions with members representing U.S. owners of European Patents and applications ("Users" of the European Patent system) in the year since our earlier letter indicate that the *primary consideration* for most Users in deciding the countries in which to validate and maintain European Patents is the budget available for the patent owner's patent grant and annual renewals.

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Almost all Users have limited budgets for patent validations and renewals. Different Users have different patent validation and renewal policies and different tactical decisions within those policies, case-by-case and year-by-year. Validation and renewal policies typically depend upon the nature and value of the products and businesses that are or will be protected. The cost and benefit are typically reviewed with each annuity payment. Users very carefully examine the cost and benefits of patents in each jurisdiction when deciding to file applications, pay granting costs, validate European Patents and national patents, and renew them, particularly after the tenth year from first filing date.

We are not aware of sufficient demand for broad territorial protection in Europe that would overcome or loosen these budgetary constraints.

European patents are perhaps the most difficult of all patents to justify on a cost-benefit basis. In particular, European Patent renewal fees do not compare favorably with renewal fees of the U.S. Patent and Trademark Office and other major patent offices. The EU states participating in the Unitary Patent have a collective GDP less than that of the United States (see Addendum, slides 1-2), yet the current renewal fees for only the top three patenting states in Europe are substantially higher than for all of the United States (slide 3).

Our research indicates that Users are not likely to significantly increase their European patent budgets to take advantage of Unitary Patents. Instead, Users feel pressure to direct an increasing share of patent budgets to other jurisdictions. GDP is growing at a faster rate outside Europe than within. In the 40 years since the EPO was established, Japan and the Republic of Korea have become major states in terms of patenting. China, India, Russia and Brazil (the "BRIC" states) have also become increasingly important. The World Intellectual Property Organization data provided on our slide 4 reflect the large number of patent applications filed in China in 2014, and that the patent offices in Brazil, Russia and India are now among the top 10 offices for patent filings.

1. Viable Alternatives

Unlike the situation in the United States, where there is only one option for a U.S. patent, Users have several alternatives in Europe. Direct-filed national patents and national validations of European Patents offer protection tailored to the perceived needs of Users. The Unitary Patent will offer another alternative. Users will likely continue to evaluate each of these alternatives based on costs.

Users have become comfortable with limited territorial patent coverage in Europe. They can obtain sufficient coverage to deter broad competition by patenting in a few key states that are members of the London Agreement. In most cases, litigation in one European state leads to resolution of multi-state disputes.

The data you provided to us indicates that in 65% of the cases, U.S. Users validate in 1 to 3 states. We expect that almost all of these validations are in the top three (Germany, France and

Great Britain), which are parties to the London Agreement. These states do not require the specification to be translated, in contrast to the requirements for a Unitary Patent (see discussion in Section 2 of this letter). Users desiring protection in seven other Unitary Patent participating states, including the Netherlands and Sweden, need to translate only the claims.

Therefore, depending on the level of Unitary Patent renewal fees, validation in London Agreement States only may be a more attractive option because of lower costs, availability of selective abandonment to control costs, and availability of a choice of enforcement forum, for example, in the Unified Patent Court in English, or in a national court at presumably lower court costs.

2. The User's Decision at Grant

The key decision to be made by a User following receipt of the EPO's decision to grant a European Patent will be whether to elect a Unitary Patent, validate the European Patent as one or more national patents, or abandon the application. That decision will depend primarily on the potential costs perceived at that time, as compared with viable alternatives, and any procedural obstacles.

As shown by your data, 23% of European Patents granted to U.S. Users in 2011 were only validated in 1 or 2 states. We suspect that the Users did not believe that the costs of validation and prospective renewal fees justified validation in additional states. The majority of US-origin cases (58%) were validated in 3 or 4 states. These cases likely would be the principal candidates for Unitary Patents.

We appreciate that there will be no official fee for electing a Unitary Patent. We have assumed for comparative purposes that the fees of a European Patent Attorney or annuity payment service for recording the Unitary Patent election and filing the specification translation will be comparable to the average fee for validation in one state. Those facts are favorable to electing a Unitary Patent.

We believe that the cost of the required translation of the Unitary Patent specification may be an obstacle for many Users. It has been suggested that the cost could be very low, because a machine translation or the same translation prepared for Italy or Spain could be used. However, European Patent Attorneys are advising that a human translation is required, because EU Regulation No 1260/2012, Recital 12 states: "Such translations should not be carried out by automated means…." Although we understand that there is no provision for examination of this translation by the EPO or participating states, we expect that Users will follow the advice of their European Patent Attorneys, resulting in increased translation costs. Also, it appears that the majority of U.S. Users do not validate in Italy or Spain. Therefore, until such time as the Select Committee declares that machine translations are acceptable, at least into one language other than English for this purpose, Users are likely to include the cost of a human translation in their evaluation of the cost of a Unitary Patent. We suggest that the EPO and its Select Committee should do the same in their cost models.

Further, the fact that the deadline for electing a Unitary Patent and filing a translation of the specification is earlier than the deadline for validating as national patents is likely to reduce use of the Unitary Patent. While our consultation participants understand that Users will have a long time to reach their decision, we believe that many Users will continue to focus on the national patent deadline, and may miss the earlier Unitary Patent deadline. It would be helpful if Unitary Patent Rule 7 could make it clear that Users may have at least until the same date as the national patent validation deadline within which to file the Unitary Patent specification translation.

3. Renewal Fees

The prospective costs of renewal are a major consideration for Users in deciding where to file patent applications, where to validate patents, and where to renew patents. Typically, Users conduct annual reviews to decide which patents to maintain and which to abandon in the context of their business objectives and patent budgets.

As we explained in the consultation, selective abandonment of patents in some states is a key tool in managing renewal costs. The lack of the ability to selectively abandon parts of a Unitary Patent will be a deterrent to electing Unitary Patent protection, which can only be overcome by making the costs reasonable for a majority of Users. Selective abandonment is probably considered in 80-90% of the renewal decisions beginning a few years after grant.

EPO representatives have suggested, prior to and during our consultation, that selective abandonment is not important because it is not exercised frequently, pointing to data from the TOP 3 states. However, the actual exercise of selective abandonment is not a good measure of the effect that its unavailability may have on elections of a Unitary Patent. Rather, the important consideration for Users is the ability to consider selective abandonment when making renewal decisions. Any evidence that selective abandonment is not exercised frequently in the TOP 3 states suggests that the TOP 3 Unitary Patent renewal fee model might be attractive to those now validating in the TOP 3. However, the inability to consider selective abandonment could very well be a deterrent if the Unitary Patent renewal fees are higher.

4. The EPO's Cost Models

The EPO has suggested consideration of several cost models, called TOP 3, TOP 4, etc., apparently based on the sum of the renewal fees of the most selected Unitary Patent participating states chosen for validation in 2011.

We suggest that use of the EPO fees through the median year for EPO grant (which we believe is year 6) would improve the models. Also, the models appear to be based solely on validations and do not take account of abandonments, including selective abandonments. We suggest that when the models are compared, differences in abandonments should be considered.

The TOP 3 model, based on renewal fees in Germany, France and Great Britain, appears to be otherwise accurate, at least for U.S. Users. When 3 states are selected, those are the states usually selected.

We do not believe that the TOP 4 model is representative of all cases in which Users have validated in 4 states. In particular, the EPO's TOP 4 includes the Netherlands, which is in fact included in 4 state validations less than 50% of the time and has very high renewal fees. Validations in the Netherlands are much less frequent than in Germany, France and Great Britain, and the reasons for many Netherlands validations appear to be based on the patent strategy of specific User groups.

5. Our Suggestions

In general, we suggest that the EPO recommend and the Select Committee adopt a fee schedule that will attract a majority of European Patent cases, namely those of the type that were validated in 3 or 4 of the participating states in 2011. As we explain below, for the Unitary Patent to be attractive to most Users accustomed to the existing European Patent validation system, we recommend the TOP 3 cost model for annuity fees.

In our consultation, we discussed some of the comparative costs in the frequently chosen London Agreement states and for Unitary Patent. We suggest that the EPO should recognize that the need to pay for a human translation of the specification at the time of election will be a deterrent. The EPO should seek to overcome that deterrent, for example, by making the renewal fee schedule more attractive.

We further suggest that, when comparing the costs of national validations and renewals, the EPO should use the typical charges of the major patent annuity service companies (identifiable by an Internet search). They are typically used for post-grant services by Users with more than a few patents and are much less expensive than the renewal service fees charged by most European Patent Attorneys.

We appreciate the concern of EPO management and the Select Committee over receiving adequate renewal fee revenue to comply with the requirements of EU Regulation No. 1257/2012, Article 12 that the renewal fees be set at a level that will cover Unitary Patent costs and assure a balanced EPO budget. It appears, however, that setting the Unitary Patent renewal fees too low should not be a concern. We believe that there are three reasons for this. First, any such concern appears primarily to be based on the idea that some Users would elect a Unitary Patent for cases of the type they now validate in many states and maintain for many years, resulting in much lower renewal fee income for the EPO. We do not expect that Users pursuing the multi-state and/or long term strategies will select Unitary Patents. They are most likely to want the advantages of individual national patents, including the opportunity for selective abandonment and lack of central attack, including the ability to opt-out of the Unified Patent Court. Second, we suggest that the choice between a Unitary Patent and national validations is likely to be revenue neutral, at least as a first order approximation in most cases. That is because the amount available in budgets for renewal fees in a given year for Europe is likely to be constant. Third, that choice will have a relatively small effect on the EPO's total renewal fee income in early years of the Unitary Patent, because election of the Unitary Patent probably will grow slowly for 2-3 years and because the fees are relatively small in early years.

Finally, we offer our specific suggestions regarding the level of renewal fees. Although the TOP 3 compares unfavorably with renewal fees in the U.S. and elsewhere, current validation data suggests that it could be attractive to a significant number of Users.

We recommend against adoption of the TOP 4 model. It compares unfavorably with renewal fees elsewhere, appears to be higher than what Users selecting 4 Unitary Patent states are now paying, and lacks the important tool of selective abandonment.

It is difficult to project User behavior that may affect the Unitary Patent choices and resulting fee income. Rather than setting the renewal fee schedule now at a high level in an attempt to increase fee income, which may deter use of the Unitary Patent, we suggest that the EPO and Select Committee review the fees after 5 years and adjust them if necessary (preferably only for later-granted patents).

* * *

Thank you again for the opportunity to consult with you and your colleagues on this important issue. We welcome the opportunity for further discussion on this and other matters of interest to potential users of the Unitary Patent system.

Sincerely yours,

Sharon A. Israel

Sharon A. Israel
President
American Intellectual Property Law Association

ADDENDUM

AIPLA Letter to the European Patent Office concerning Unitary Patent Fees

February 11, 2015

GDP (PPP) List by the International Monetary Fund (2013)

	Rank	Country	GDP (Billions of US$)
		World	**101,933.9**
		European Union	17,578.4
	1	United States	16,768.1
	2	China	16,149.1
	3	India	6,776.0
	4	Japan	4,667.6
UP LA	5	Germany	3,512.8
	6	Russia	3,491.6
	7	Brazil	3,012.9
UP LA	8	France	2,534.5
	9	Indonesia	2,389.0
UP LA	10	United Kingdom	2,320.4
	11	Mexico	2,058.9
X (UPC)	12	Italy	2,035.4
	13	South Korea	1,697.0
	14	Saudi Arabia	1,553.1
	15	Canada	1,518.4
X	16	Spain	1,488.8
XX	17	Turkey	1,443.5
	18	Iran	1,244.3
	19	Australia	1,052.6
	20	Nigeria	972.6

GDP (PPP) List by the International Monetary Fund (2013)

	21	Taiwan	970.9
	22	Thailand	964.5
	23	Argentina	927.9
	24	Egypt	909.8
x	25	Poland	896.8
	26	Pakistan	835.1
UP LA+	27	Netherlands	780.3
	28	Malaysia	693.6
	29	South Africa	662.6
	30	Philippines	643.1
	31	Colombia	602.0

	32	United Arab Emirates	570.6
	33	Venezuela	553.3
	34	Algeria	522.6
	35	Iraq	499.6
	36	Bangladesh	496.0
	37	Vietnam	475.0
UP	38	Belgium	455.0
XX LA	39	Switzerland	432.0
	40	Singapore	425.3
UP LA+	41	Sweden	418.2
	42	Chile	395.6

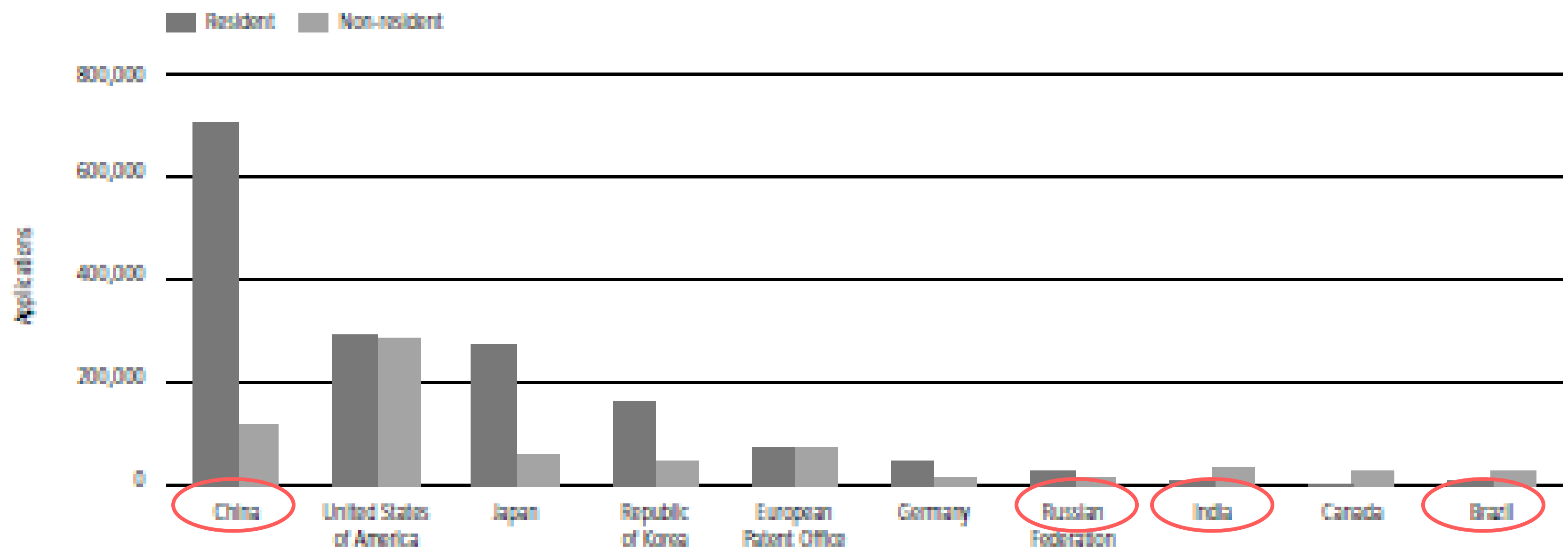
Comparison of Renewal Fees

	Renewal Fees in Europe		Renewal Fees in United States					
Year	TOP 3	Cumul.	€=US$/0.75	Cumul.	€=US$/0.85	Cumul.	US$	Cumul.
2 (?)	350	350						
3	465	815						
4	580	1,395						
5	810	2,205						
6	1,206	3,411						
7	409	3,820	1,200	1,200	1,360	1,360	$ 1,600	$ 1,600
8	531	4,351						
9	646	4,997						
10	771	5,768						
11	956	6,724	2,700	3,900	3,060	4,420	$ 3,600	$ 5,200
12	1,171	7,895						
13	1,400	9,295						
14	1,650	10,945						
15	1,925	12,870	5,550	9,450	6,290	10,710	$ 7,400	$ 12,600
16	2,229	15,099						
17	2,531	17,630						
18	2,843	20,473						
19	3,145	23,618						
20	3,445	27,063						
to yr. 16	15,099		9,450		10,710		$ 12,600	
to yr. 20	27,063		9,450		10,710		$ 12,600	

EPO fees thru OY 6,
National fees thereafter.

Four of the Most Active Patent Offices Are in "BRIC" States

Figure 2. Patent applications at the top 10 offices, 2013



WIPO, World Intellectual Property Indicators – 2014, p. 12.

January 28, 2013

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RE: Unitary Patent Fees

Dear Mr. Debrulle:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) regarding Unitary Patent fees.

AIPLA is a U.S.-based national bar association with approximately 15,000 members who are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property, in the United States and in jurisdictions throughout the world.

AIPLA has a long-standing positive relationship with the European Patent Office (EPO), and we are aware of how effective the EPO has been as a steward of the European patent system. In fact, AIPLA members are themselves responsible for the filing, prosecution and maintenance of a significant number of EPO applications. As you may be aware, more patent applications are filed in the EPO by U.S.-based inventors, companies and organizations than those of any other country, about 25% of total EPO patent application filings per year.

AIPLA has also long been actively involved in representing the interests of users internationally and has an ever-growing membership of patent professionals worldwide. For example, AIPLA has participated in the Industry Trilateral and Industry IP5 groups since they were established, and in the US Bar – EPO Liaison Council since it was formed over 25 years ago. Further, since we represent significant users from outside of Europe, AIPLA's views could be considered to represent views of owners of European patents wherever they are located, as members of AIPLA include patent professionals from around the world.

AIPLA believes that a cost effective Europe-wide patent is in the best interest of all applicants seeking patents in Europe. Accordingly, we appreciate the decision of the European Union to establish a European Patent with unitary effect for participating EU member states, known as the "Unitary Patent," provided, as set out below, that it will be implemented in a balanced and economical manner. In that way, the Unitary Patent could offer increased, valuable protection in Europe for patent owners from all countries, akin to the single U.S. patent covering the full market of the United States itself.

Despite significant progress made by EPO to date toward implementing the Unitary Patent system, AIPLA is concerned that patent owners will not validate a European Patent as a Unitary Patent as often as might be presently expected, if it appears to those patent owners *at the time of validation* that the cost over the whole life of the Unitary Patent would be higher than the cumulative amount which those patent owners would be paying for European Patents validated in selected individual member states. Many U.S. corporations that file for patent protection in Europe have fixed budgets for patent filing and maintenance, which cannot be easily increased. Patent owners may therefore be unlikely to be able to increase their budgets in response to the opportunity to obtain Unitary Patent protection in member states of the entire European Union which they would not otherwise have selected for individual validation. In addition, some patent owners may have concerns regarding possible central attack by a nullity action of the Unitary Patent or other counterclaim in the new Unified Patent Court.

We appreciate the fact that the latest draft rules that have come to our attention do not require payment of any fee for validation of a European Patent as a Unitary Patent, and we urge your committee to maintain that policy in the final rules as a valuable incentive for patent owners to move from validating European Patents in individual EU member states to validating a Unitary Patent for all participating EU member states.[1]

We understand that one alternative your committee may be now considering would be to set Unitary Patent annual maintenance fees to be comparable with the sum of fees for the average number of member states among the Unitary Patent participating states that are currently *initially* validated in individual member states upon grant of a European Patent ("sum of EP fees" approach). In principle, that should be acceptable to patent owners in the first few years. However, as discussed below, such initial acceptance is not likely to be equally acceptable in later years.

One characteristic of the current European Patent system is that patent owners have the option of individually validating those member states in which they want nationally enforceable patents, and thereafter selectively discontinuing maintenance in some member states in later years, to better match costs with benefits of retaining validation in any particular member state. That option will not be available with a Unitary Patent; therefore, patent owners will be very carefully

[1] AIPLA also recognizes that there will continue to be a need for validation of European Patents into members of the European Patent Convention which are not members of the EU, plus the two EU member states which at the moment are not participating in the Unitary Patent. This will represent additional budgeting and cost/benefit considerations for users of the system.

considering their projected maintenance fees in the 10th through 20th years of patent life before initially validating a European Patent as a Unitary Patent. Specifically, patent owners given limited budgets will compare the Unitary Patent "bundled" fees with the sum of the individually validated member state fees, year-by-year, that they would expect to pay in accordance with their current practice with European Patents. This calculation often becomes a technology-by-technology, patent-by-patent decision analysis, with the result for each patent in each year of either irreversible abandonment or enforcement for another year and another cost/benefit decision in the next year.

In fact, if the "sum of EP fees" approach were applied in the 10th through 20th years, the cost to applicants for a Unitary Patent would be more than the cumulative costs of the European Patents that remain in force in a subset of member states. Applicants do choose abandonment in some member states from one year to the next as fees rise, if there is no compelling reason to maintain a patent in a particular member state. In other words, the "sum of EP fees" for a Unitary Patent being maintained in its last half of life will likely be at a greater cost than the aggregate of maintenance fees for a member-state-by-member-state annual decision under the longstanding EP framework. This could deter significant numbers of patent owners from validating a Unitary Patent at all due to its inability to reduce maintenance costs by abandonment of less desired member states as the patent ages toward 20 years and expiration, and maintenance costs per member state increase.

Moreover, even for those patentees who have chosen a Unitary Patent validation, such a "sum of EP fees" approach would be likely to induce a significant number of patent owners to abandon some of their Unitary Patents in an earlier year because the cost of continued protection outweighs the benefit of continued protection in those few remaining member states where continued protection is still valuable. The consequence of earlier Unitary Patent abandonment would be less maintenance fee income for the EPO and all others who would be sharing in that revenue.

Therefore, we suggest that a best solution for those deciding how to price the Unitary Patent, and most attractive for patent owners, would be to set the Unitary Patent maintenance fees for each of the 10th through 20th years at a level projected to produce approximately the same amount of cumulative revenue as is now received for an average of European Patents which are maintained in their second halves of life. This would result in validation of the Unitary Patent being a cost savings at the moment of validation, and a cost neutral alternative in later years of life.

The EPO is likely to possess data which can be analyzed to determine for patents reaching each year of life, from year 10 to year 20, what is the average number of member states having validated European Patents which have not lapsed for non-payment of maintenance fees. For example, if the average validated European Patent were to have 4 member states at year 10, but 3 member states at year 15, and then 2 member states by year 19, that pace of attrition, year over year, could be used to establish a Unitary Patent annual maintenance fee structure which would demonstrate to patent owners a revenue-neutral result for the average patent owner about to choose, *irreversibly*, between either:

a. a member-state-by-member-state approach using the European Patent, with some EPO member states selected, some of those perhaps later abandoned, and some member states not selected at all; or

b. a "unitary" approach using the Unitary Patent, providing protection in all but two EU countries only (with no option for later selective abandonment), plus the need to designate European Patents in the remaining EPO member states of interest.

Since it is our belief that this decision will be made primarily on the basis of overall cost throughout the life of the patent, a revenue-neutral result will be critical to the success of the unitary patent system.

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AIPLA stands ready to offer further explanations, commentary to new deliberations, and other assistance in this very important task of the Select Committee.

Sincerely,

Wayne P. Sobon
President
American Intellectual Property Law Association

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