

A 'New Motivation'- Quality, Backlogs and Fees at the EPO

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1. Introduction

The EPO's 2007 Annual Report stated the following:

'one of the most critical challenges of the moment is the accumulation of backlogs in the patent system. In addition, the Office is receiving fewer patent applications drafted in accordance with the EPC standard, which makes the applications substantially more difficult for examiners to process and quality patents more difficult to achieve.'

This is a short, powerful summary of a situation that is very clearly in need of solution. The quotation focuses on the backlogs as being a challenge to the EPO. However, backlogs also have very significant negative effects on representatives, applicants and the general public.

This article looks at the links between backlogs at the EPO, the quality of granted patents and the EPO's fee structure. The EPC2000 revisions were intended to allow the EPO far greater freedom to change the way in which it operates. This article therefore also considers what the EPO could do with those powers, specifically at opportunities for building on the incentives introduced by the recent re-structuring of claims fees.

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2. Background

The EPO has operated with significant backlogs in search, examination, opposition and appeal for much of its 30 year history. The backlog in search dates back to the mid 1980s. Considering examination, the EPO's 2008 Annual Report states that, during 2007, ***'the number of European Examination files awaiting a final outcome rose by 5.9% to 485700'***.

To their great credit, the staff at the EPO have faced this situation with resolve. For more than twenty years, including ten years in the 1980s and 1990s when the author of this article was an EPO examiner, the EPO has sought to raise its efficiency. Increases in efficiency have often involved a 'getting more from each examiner' approach.

Recently, there has also been major progress on making the EPO more effective, effectiveness not being the same as efficiency.

Since 1st April 2008, a fee of Euro200 per claim has been payable for the 16th and each subsequent claim. From 1st April 2009, there has been a fee of Euro500 for the 51st and each subsequent claim. These claims fees now

provide a strong incentive for applicants to review the number and structure of claims. This incentive is likely to bring significant changes to many European Patent Applications that are either based on an earlier national patent application, or which are based on an International Application filed through the PCT.

A European Patent Attorney now has convincing arguments with which to persuade an applicant that it is worth investing time to amend claims, before an application reaches the EPO. This was not the case under the system of claims fees in force before April 2008. Under that system, any attempt by a European Patent Attorney to spend time amending claims before filing a European Patent Application would almost always cost more in 'chargeable time' than it would have saved in EPO claims fees.

The new claim fee structure demonstrates that applicants can be given strong incentives to be proactive, very early in the substantive examination process. However, the claim fee structure is simply one step towards improving the situation that '*the Office is receiving fewer patent applications drafted in accordance with the EPC standard*', see the quote in the introduction.

Prior to filing, a European Patent Attorney in private practice still has few arguments available with which to persuade an applicant to do more than just react to the claims fees. Applicants know that many EPO examiners will produce a neat list of requirements, which the applicant can then address. The applicant needs only to expend time, and hence money, to make changes during substantive examination. A large majority of representatives are in private practice. So extensive work to bring a national or a PCT application into agreement with the EPC, prior to filing as a European Patent Application, is still unlikely to be the norm.

The incentives introduced by the new claims fees show that further variations to the EPO's fees would have strong effects on the condition of patent applications that are filed at the EPO. This would cut the workload for examiners, and also the time to reach grant. Here 'condition' means how close the patent application is to meeting the requirements of the EPC.

3. What are the real effects of the backlogs?

The effects of backlogs at the EPO are very great. However, because large backlogs have been part of the patent system for so long, it is hard for many people to see how they affect patent quality, and how much they cost.

3.1 Effects on EPO staff and European Patent Attorneys

One effect of the backlog in examination is that, often, 12 months elapse between an examiner issuing a communication and the examiner being able to read the representative's response. So the examiner has to invest significant time in re-familiarising himself with the case.

A far less well understood issue is that the backlog in examination leads to many European Patent Applications not remaining with the same patent examiner for the whole time period up until grant. It is even more likely that there will be a change of representative between an invention being submitted by an inventor for drafting as a patent application, and the eventual grant of a European Patent.

The main reasons for changes in responsibility between examiners or representatives over a timescale of 3-7 years are: staff resigning; staff retiring; staff moving to a new role, such as the EPO Board of Appeal or litigation in a patent firm; extended illness; maternity leave; setting up work dockets for newly recruited staff; peaks and troughs of workload requiring the hand-over of work between colleagues.

Each time that responsibility for a patent application passes from one patent examiner to another:

- (i) There is a need for the new examiner to read the application, and to familiarise himself with everything that has happened in the case so far.
- (ii) There is a significant risk that the new examiner will only partially understand the relevance of the prior art, which is often extensive and may have to be read and decided upon all in one go.

Point (i) is an enormous drain on the time of highly qualified staff. Point (ii) leads to decisions of poorer quality than would otherwise be the case.

Points (i) and (ii) also apply to European Patent Attorneys who take over cases. The duty of care on representatives in private practice requires them to take great care when taking over responsibility for a patent application, either within their own firm or from another firm. As a result, much time is wasted, each time that an application passes from one representative to another. That time usually cannot be charged to clients.

A representative who takes over a patent application also needs to try and understand the commercial motivation for prosecuting a patent application. The representative who drafted the application may have spent several hours with the inventor, and may have worked for several years with the company that provided the invention. Such knowledge of an applicant's needs is not available to a new representative. So the new representative may typically have to spend a great deal of time understanding which claims to pursue, in order to achieve the grant of claims that are of greatest value to the applicant. The risk is always that claims may be pursued when an application really should be dropped, or even that an application is dropped that still has value.

Often, the most significant issue for European Patent Attorneys is the need to contact the applicant or inventor, prior to drafting a response to an EPO communication. The issues in the preceding paragraph are made much worse by the fact that, in large industrial companies, inventors have usually either left a company or moved to a new part of a company, 3-7 years after the filing of a patent application. So a frequent task for a representative is to try and find

another employee who knows whether or not an application is still important. Persuading someone in industry to put time into someone else's patent application, for which filing awards have often already been paid, is a skill in itself.

In addition to these practical difficulties, the negative effects on motivation of taking over large backlogs of partially examined cases are very great, both for EPO examiners and European Patent Attorneys. Most people in the patent system have experienced the sinking feeling of knowing that a colleague is leaving, and that that colleague's workload now needs to be divided up amongst those people who are left.

3.2 Assessing an invention years later

A major problem arises from the total amount of time between an application being filed and a final decision whether or not an invention was 'non-obvious' at the time of filing.

The biggest issue for quality, many years after an application was filed, is that it becomes increasingly difficult for examiners or representatives to provide convincing arguments whether or not a claim was 'non-obvious' many years ago. Many people have sat in an oral proceedings at the EPO and have had to imagine what was known and 'common general knowledge' many years previously.

3.3 What effects do backlogs have on the other parties involved?

Returning to the figure of 485700 European Examination files awaiting examination, it is clear that these cases create great uncertainty for third parties.

Any company wishing either to commence production or a service in Europe will be faced with hundreds, or possibly thousands, of pending patent applications. Any single one may affect the viability of that company's planned project. So large backlogs provide a hugely uncertain commercial environment. Uncertainty is the enemy of business planning. Inevitably, this uncertainty raises risk, and hence the cost of entering markets, which is exactly the opposite of what is needed. Ironically, patent proprietors also suffer from this uncertainty, since they have little hope of valuing the licensing potential of a European Patent Application at most stages up until grant.

3.4 Do backlogs bring any benefits?

Backlogs represent a form of deferred examination by default. However, the amount of deferral for an individual application is unknown, since it depends on the backlog in the particular technical field. So this is effectively deferred examination by lottery.

In addition, there is no mechanism for a third party to request examination of a

patent application that is of concern to a business' planned activities. A party submitting observations under Art.115 EPC does not become a party to the examination proceedings, and those observations do not lead to the application being examined sooner than others in the backlog.

4. A proposed solution: 'Expedited Examination'

This article proposes a solution that can substantially eliminate the negative effects in section 3 above. In particular, the time wasted by examiners and European Patent Attorneys can be greatly reduced, hence saving costs to the EPO and applicants. There would also be gains in patent quality.

It's first necessary to accept that, for many patent applications, the applicant currently has great economic incentives to allow the examination process to last as long as reasonably possible. The fact that the EPO is not deluged by applicants complaining about delays in examination provides another strand of evidence for this.

In essence, most representatives experience work with the EPO as a two step process. Firstly, a significant fee has to be paid to initiate a phase of work, e.g. examination or opposition. Then that phase of work begins. Importantly, the examiner's time is 'free at the point of use' for the representative during that phase of work. The same examination or opposition fee is payable, no matter how many hours of an examiner's time are needed to settle the case. So a 'direct grant', in which the EPO does not even issue an examination communication, costs the same examination fee as an application which requires two examination communications and oral proceedings, spread over three years.

Once it is understood that the fee paid by an applicant or opponent is not correlated with the workload per case, then it becomes clear that solutions are possible. What is needed is an incentive for applicants to bring their applications into conformity with the EPC much sooner than is currently the case, or for opponents to act more quickly in opposition proceedings. That incentive must be greater than the incentives to delay as long as possible.

The proposals shown in Table 1 below offer a solution. Table 1 explains three new options for applicants and opponents. These options are henceforth collectively termed 'Expedited Examination'. These options differ from the EPO's 'PACE' measures, in that their use would reduce costs significantly.

None of the three options would be compulsory. These options are politically easy to implement, precisely because they are simply additional choices. Importantly, they would be attractive to SMEs, which the EPO has a particular duty to help. However, any applicant wishing not to use them would be free to continue as presently.

Expedited Examination has two interlinked aims. These are:

(i) To encourage applicants to submit requests for examination earlier, and,

once examination has started, to respond earlier to any communication issued by the EPO.

(ii) To provide as many applicants as possible with a strong financial incentive to be proactive, early. Here 'proactive' means both putting an application in order for grant as early in the application process as possible, without prompting, and responding as completely as possible to any objections that are eventually raised by the EPO.

Table 1: Expedited Examination
<p><u>1. Examination fee refund</u></p> <p>The examination fee would be refunded, if:</p> <ul style="list-style-type: none"> a) An applicant makes a request for examination within one month of transmittal of the search report; b) The EPO grants the patent either without issuing an examination report, or with only one examination report having been issued, and without oral proceedings; c) When one examination report is issued, the applicant provides a comprehensive reply to that report within one month.
<p><u>2. Opposition fee refund</u></p> <p>The opposition fee would be refunded to any opponent who:</p> <ul style="list-style-type: none"> a) Filed their opposition within one month of the mention of grant of a European Patent; b) Replied within one month to any communication from the opposition division; and c) States in any request for oral proceedings that they would attend at one month's notice, and subsequently does attend if they accept an invitation. <p>The opposition fee would only be refunded if an amendment were made to the granted patent, or the patent were revoked, as a consequence of at least one of the grounds cited by the opponent.</p>
<p><u>3. SME refund</u></p> <p>Where the conditions for refund of an examination fee were met, and the applicant was an SME, the applicant would also be entitled to a refund of the search fee if:</p> <ul style="list-style-type: none"> a) All the independent claims, as originally filed, were granted without amendment of their scope.
<p>In each of refunds 1-3 above, the applicant or opponent would have to request a refund at the start of the relevant procedure, and would have to state in that request that they intended to abide by the conditions given above.</p>

Refund of the examination fee would only be made when the applicant has submitted translations of the claims, and paid the fees due under Rule 71(3),

(6) and (9) EPC.

The proposal for opposition fee refund would not change the maximum time of nine months permitted by Art. 99 EPC for submitting an opposition. However, once a stage had been reached when the majority of oppositions were filed within one month, the maximum time permitted should be cut to four months and the opposition fee increased. The advent of on-line databases of prior art has reduced radically the time necessary to gather prior art for inclusion in an opposition, since the EPC was originally drafted, and these changes should be seen in the light of that.

It is also important to realise that many proprietors would be better placed if they received the prior art cited in an opposition only one month after grant, rather than nine months after grant. This reduces uncertainty for them.

The SME refund would provide a much greater incentive for applicants to search thoroughly, before filing cases at the EPO. Many more SMEs would change their claims after receiving a search report from a national office, before applying to the EPO. Others will carry out more thorough searches themselves. European Patent Applications resulting from such preparation would then usually have very relevant prior art cited in them, and the claims will have been (re-) drafted in the light of that prior art.

5. Discussion

Expedited examination would bring the median time to grant of European Patents down by between 1 and 1.5 years. Currently the EPO's 2008 Annual Report quotes that **'On average, a granted patent was published 43 months after the application was received'**. However, this is not the time from the priority date. The 43 month figure also disguises the many cases that stay in the system for 4-7 years before being abandoned, refused, or granted after many attempts at amendment.

Once the EPO had cleared existing backlogs, many applications would be granted within 2 years of their priority date.

So what would be the costs and benefits of Expedited Examination?

In 2007, the EPO's fees from 'examination and grant' were 15% of all EPO income. If 50% of applicants manage to meet the 1 month deadlines given in Table 1, and obtain grant after at most one EPO communication, then examination fee refunds would reduce total EPO income by approximately 4%. Notably, the 500 Euro designation fee, 790 Euro grant fee and any claims fee would still be payable. The examination fee is 1405 Euros.

Against this 4% reduction in EPO income, there would be a very major reduction in the time spent by EPO examiners, through four different effects. Each of the following four effects would result in a significant time saving for examiners, although the first effect is the most important:

- (i) There would be many cases in which fewer examination communications would need to be issued, and those communications would need to cover fewer issues. This is because applicants will submit European Applications in better condition for grant, in order to try and gain a refund of the examination fee. If a first EPO communication does have to be issued, then applicants would, for example, be likely to take exceptional care not to add subject matter in their response.
- (ii) The reduction in time for an examiner to re-familiarize himself with an application. This is because the representative's response would come back one month after an EPO communication is issued, rather than the usual four to six months.
- (iii) The reduction in the large number of old cases that are handed over from one EPO examiner to another. This would also save time for representatives.
- (iv) The elimination of oral proceedings for those cases that receive a refund of the examination fee.

Considering cash flows, the EPO would also gain through increases in the remittals of 50% of each national renewal fee. Proprietors of granted patents will pay these fees to the national offices sooner for each application that qualifies for an examination refund, than otherwise would have been the case. Clearly, the national offices will also gain significant revenue from this. The increase in the net income to the EPO from national renewal fees would however be partially offset by the fact that applicants would pay fewer annual Art. 86 EPC renewal fees directly to the EPO, while the application was pending. The exact calculation may result in a benefit or a cost, since the typical number of member states in which granted European Patents are validated is likely to change significantly with awareness of the London Agreement.

Similar analyses apply to the 'Opposition Fee Refund' and 'SME refund' in Table 1.

Expedited examination would contribute to a major reduction in the uncertainty created by undecided patent applications, and hence to the hidden costs to Europe's companies. This effect may well be the greatest overall, but is the hardest to turn into monetary values.

Concerning the SME refund, it is useful to compare the proposal with the 50% reduction in most fees that the USPTO offers to SMEs. That refund is not linked to any proactive patent prosecution work by the applicants, but is simply dependent on their size. Other patent systems, such as the Indian system, also offer large percentage reductions in fees, based on the status of the applicant. In contrast, the SME refund in Table 1 would change the way that SMEs prepare and prosecute their patent applications, in return for the additional fee refund that they might eventually receive.

6. Conclusion

At present, a European Patent Application is likely to have been the

responsibility of several different people, before being granted. It is also likely to have been amended on several occasions, spaced apart by 1-4 years. This is not conducive to producing quality patents.

The European Patent Convention currently offers little motivation to put an application in order for grant, or to settle an opposition quickly. There is a great difference between having the motivation to take an action as soon as possible, and the fact stated in Enlarged Board of Appeal Decision G1/93 that '*an applicant is responsible for amendments made...*'. What is needed is a new motivation.

The system of Expedited Examination presented in Table 1 above offers a net 'win-win' outcome. A key issue is that Expedited Examination would be optional, since it is then not forced on any applicant or opponent. The three main effects would be:

- (i) Many more cases being granted with fewer, or no, EPO communications having been issued.
- (ii) Eliminating the duplication of work, which currently simply wastes time; and
- (iii) Bringing forward the point in time when many European Patent Attorneys do most of their work on an application.

Speeding up the process from the start of examination through to grant would almost entirely eliminate the routine passing-on of unsettled cases between examiners, representatives and technical experts in firms. There would be a corresponding, and important, increase in patent quality, together with greatly reduced uncertainty for third parties.

If we consider a typical European Patent that is allowed to lapse ten years after its priority date, Expedited Examination would mean that the granted patent would be in force for the final eight years of that period, and would only have been an application for the first two years. This is a much more desirable situation than an application that pends for four and a half years, and then is in force for five and a half years.

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