

Summary: Intervention & Options

Department /Agency: BIS / The Intellectual Property Office ("IPO")	Title: Impact Assessment of the Patents and Patents and Trade Marks (Fees) (Amendment) Rules 2010	
Stage: Final	Version: 1	Date: 22 December 2009
Related Publications: consultation document, response document and guidance for business - see www.ipo.gov.uk		

Available to view or download at:

<http://www.ipo.gov.uk>

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What is the problem under consideration? Why is government intervention necessary?

The statutory fees for applying for, and maintaining, patent rights have not significantly increased since 1992. As a result, the fees have not kept pace with the IPO's administrative costs. Government intervention is therefore necessary to ensure that the IPO has a sustainable income, and can continue to operate effectively and efficiently as the UK's IP rights-granting and policy-making body. It is also an attempt to implement the Gowers Review's recommendation that IPO fees should better match the costs incurred.

What are the policy objectives and the intended effects?

The policy objective is that IPO fees should better match the costs incurred, while stopping short of full cost recovery. In particular, fees for the processing of patent applications should remain relatively low, and costs to the IPO of examining and granting patent applications should be recovered by the payment of patent renewal fees. The intended effects are that the fee structure should provide a sustainable income for the IPO, while at the same time continuing to be structured in a way which encourages appropriate use of the IP system, thus encouraging and supporting innovation.

What policy options have been considered? Please justify any preferred option.

A package of fee increases which address the Gowers recommendation, and provide a sustainable fee structure for the IPO - preferred option.

A package of fee increases which move to full cost recovery - not preferred, as very high up-front fees would have a clear negative impact upon innovation and would restrict access to the IP system to only the most profitable of businesses.

Leave current fee structure in place - not preferred, as this would not address the Gowers recommendation, nor the other issues identified above.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? One year after implementation .

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option:	Description:
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' Fees payable to the IPO for statutory services are increased (a proportion of some are then forwarded to the European Patent Office). These fees are payable by individuals or organisations of any size, from anywhere in the world, who choose to seek, challenge or defend UK intellectual property rights.			
	One-off (Transition) Yrs				
	£ minimal		0		
	Average Annual Cost (excluding one-off)				
	£ 20.6M	Total Cost (PV)	£ 20.6M		
Other key non-monetised costs by 'main affected groups' None - to an extent these costs represent a rebalancing to address inflationary increases not imposed since 1992.					

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups' The average annual benefit to the IPO is £12.3 million. This is because some of the patent renewal fees paid annually by users to keep a patent in force in the UK are passed to the European Patent Office.			
	One-off Yrs				
	£ 0		0		
	Average Annual Benefit (excluding one-off)				
	£ 12.3M	Total Benefit (PV)	£ 12.3M		
Other key non-monetised benefits by 'main affected groups' The fee changes will ensure that the IPO remains an effective rights-granting and policy-making body, and provides a well-functioning and value-generating IP system for UK and international businesses.					

Key Assumptions/Sensitivities/Risks Changes will affect all users of the patents system, from lone inventors to multi-national companies.

Price Base Year 2009	Time Period Years 10	Net Benefit Range (NPV) £ (95.9M to 115.9M)	NET BENEFIT (NPV Best estimate) £ 105.9M (mid range)
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	6 April 2010			
Which organisation(s) will enforce the policy?	IPO			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 0
		Net Impact	£ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background

The fee increases primarily concern the statutory fees that are associated with the operation of the patents system in the UK. The patents system is governed by the Patents Act 1977 (as amended), and the Patents Rules 2007 (SI 2007/3291) (as amended). Statutory fees are set out in the Patents (Fees) Rules 2007 (SI 2007/3292) (as amended).

Apart from a few minor adjustments, the statutory fees for applying for, and maintaining, patent rights have not increased since 1992. Furthermore, it is a long-standing principle of the patents system that the up-front fees for applying for and obtaining patent protection are kept relatively low, while “renewal” fees paid annually over a patent’s lifetime then allow the Intellectual Property Office (“IPO”) to recover the costs involved in providing and administering the patents system in the UK (in particular, the cost of searching and examining patent applications).

This ensures that the patent rights are accessible for innovative UK businesses of all sizes, and allows those who hold valuable patent rights to bear a high proportion of the costs of administering the patents system, via the payment over the patent’s lifetime (20 years from filing) of the annual renewal years – which increase year-on-year to reflect the likely growing value of patent rights.

In 2006, the Gowers Review of Intellectual Property undertook a wide-ranging and thorough review of the IP system, and concluded (in recommendation 50) that the Patent Office (as it then was) should “Realign UK Patent Office administrative fees to cover costs more closely on Patent Office administrative operations (e.g. granting patents).”

Rationale for intervention

The Gowers recommendation, together with HM Treasury guidelines stating that it is good practice for service-charging public bodies periodically to review and, if appropriate, revise charging levels, both indicated that a revision of the fees is timely. It is also important to ensure that the IPO has a sustainable income and so can continue to operate effectively as the UK’s IP rights-granting and policy-making body.

Purpose of the fee changes

In general terms, the fee changes are intended to achieve the policy objective that IPO fees should better match the costs incurred, while stopping short of full cost recovery. In particular, this means that the fees for the processing of patent applications remain relatively low, and the costs to the IPO of examining and granting patent applications will continue to be recovered by the payment of patent renewal fees.

More specifically then, the fee changes are intended to do several things:

- (i) adjust fee levels so that fees better match costs incurred, without moving to full cost recovery
- (ii) provide a sustainable income for the IPO
- (iii) be structured in a way which encourages appropriate use of the intellectual property (“IP”) system, thus encouraging and supporting innovation
- (iv) be structured in a way which further encourages the use of e-business services.

Consultation

The Gowers Review itself involved wide consultation of users of the IP system of all sizes, and the formal Call for Evidence between March and April 2006 received over 500 responses – and which helped form the recommendations that were made. After that, and during the period when the IPO took forward further research into fee-setting and structure, informal contact was made with representative users of the patents system to discuss how fee levels affect their use of the system.

Most importantly, the proposals were subject to a full, formal consultation from July to October 2009 – see www.ipo.gov.uk/consult-fees.pdf. This involved publication of the consultation document on the IPO website, wide dissemination to a wide spectrum of patents users, and discussion of the proposals with key representative organisations.

In total 33 responses were received, from professional representative bodies, individual IP firms, attorneys, Universities, SMEs and individuals. Many of the respondents supported the proposals put forward in the consultation, and indicated that the individual proposals would not have an adverse effect on their behaviour as users of our services. They confirmed that, for many, official fees are only a very small part of the overall cost of obtaining and maintaining IP rights. Some specific concerns were, however, raised about ensuring that innovative SMEs and individuals can continue to access the patents system. The proposed fee changes have been revised in light of these concerns – as detailed below.

Options

Maintain current fee levels

If we left the current fees unchanged, the Gowers recommendation would remain unaddressed. Furthermore, with fees having remained essentially static since 1992, and therefore decreasing year-on-year in real terms, there would be a risk that the IPO's financial model would no longer provide the sustainable income necessary for it to function effectively and to provide a well-functioning and value-generating IP system for UK businesses to use to best effect.

Adopt full cost recovery

If we adopted a fee structure which involves full cost recovery, the up-front fees for (for example) patent search and examination would increase many times over. This would almost certainly bar most innovative SMEs and individuals from access to the patents system. The consequence would be an inability to bring innovative products and processes successfully to market, given the absence of protection afforded by patent rights. It would also render the IPO entirely uncompetitive, since other routes are available for obtaining IP rights in the UK.

Furthermore, under a full cost recovery model, the annual renewal fees payable to keep a patent in force would drop to an almost negligible amount, even for valuable rights that had been in force and revenue-generating for 15 years or more. This would entirely remove the current incentive for rights holders to relinquish rights where they are not lucrative (thus freeing up technology for use by others) and to keep those more valuable rights for their full 20 year term - and so would undermine this as a key rationale of the IP system.

Increase fees as proposed in the consultation paper, but modified in light of the responses

As set out earlier, the fee changes will address the Gowers recommendation by ensuring that, in key areas, fees are increased to bring them closer to the cost incurred – but while maintaining the philosophy that renewal fee payments on valuable patent rights should, to an extent, subsidise the cost of processing patent applications.

It should be noted that the fee increases will leave many fees equivalently lower, in real terms, than their 1992 level. For example, if the first and final renewal fees had kept pace with inflation since 1992, those fees would now be approximately £170 and £700 respectively (whereas the increases are from £50 to £70, and from £400 to £600).

(i) Search and examination fees

In recognition of the Gowers recommendation, the consultation proposal was to increase search and examination fees from £100 to £200 and from £70 to £150 respectively. However, in order to further encourage the use of e-filing systems, and to reflect the efficiencies that result from use of those systems, the proposal was that the discount of £10 if a search or examination is requested electronically be increased to £30.

Although many of the consultation responses indicated clearly that these fees would not materially affect the respondents use of the patents system, a significant number were concerned about whether increases to up-front fees at this level would deter certain innovative individuals or SMEs from accessing the patents system.

We have therefore decided to make a less significant increase to search and examination fees, in order to be sure that access to the patents system remains possible for all. The search fee will increase to £150 (rather than to £200) and the examination fee will increase to £100 (rather than to £150). The discount for e-filed search and examination requests will be doubled from £10 to £20 meaning that, for such cases, the search fee will rise from £90 to £130 and the examination fee from £60 to £80.

(ii) Excess claim fee

Furthermore, we proposed a fee for the handling of applications with more than 15 claims – again reflecting the increased resources that such applications require in processing. The proposed fee was £20 per claim over 15 claims, and the fee would be calculated in respect of claims at the search stage.

In light of consultation responses expressing some significant concerns about this idea, and suggestions that it may not always work in the way intended, we have decided not to take this proposed new fee forward. This is also another way in which front-end fees for progressing a patent application are not increased in the way initially proposed.

(iii) Renewal fees

Evidence from past patent renewal fee changes is that raising renewal fees by a modest amount does not greatly affect the volumes of those rights holders who choose to renew their rights. In particular, if a patent is protecting a commercially successful product or process, it is very likely to be continued to be renewed for a fee of a few hundred pounds.

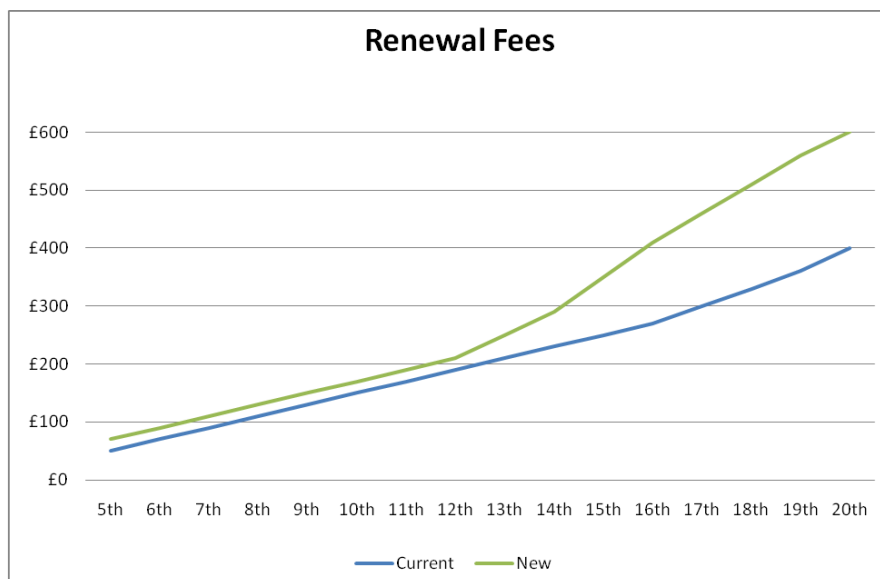
Increases in the annual patent renewal fees were therefore proposed – with a range of possible increases put forward in the consultation document. The suggested increases set out only small changes in the early years of a patent's lifetime, when the product or process protected by the patent may not yet have established commercial success.

The increases get greater after the 13th year of the patent's lifetime, by which time it should have become clearer whether commercial success is likely. It should be noted that, even with increases at the upper end of the range, UK renewal fees would remain relatively low in comparison to some other countries – for example, only approximately one-third of the fees payable in Germany.

Most respondents to the consultation agreed that it was appropriate to recover costs from renewal fees rather than front-end fees, and supported the proposed increases.

The existing and new renewal fees are therefore as follows:

Renewal year	Current fee (£)	New fee (£)
5 th	50	70
6 th	70	90
7 th	90	110
8 th	110	130
9 th	130	150
10 th	150	170
11 th	170	190
12 th	190	210
13 th	210	250
14 th	230	290
15 th	250	350
16 th	270	410
17 th	300	460
18 th	330	510
19 th	360	560
20 th	400	600



The total increase in renewal fees over the maximum lifetime of a patent will be £1240, or £62 per year over 20 years.

(iv) Patent litigation fee

A new litigation fee of £350 was proposed, payable by the claimant at the point where it becomes clear that the proceedings are contested. This reflects the significant resources that the IPO commits to its patent litigation function, but ensures that the costs of launching proceedings remains very low (£50). Importantly, it means that the fees better reflect the reality of the resources involved in handling full-blown proceedings, but at the same time the fees do not bar access to existing ways in which proceedings are used in

an uncontested way to, for example, alter inventorship details or to remove a patent from the register when all parties agree it is invalid. Furthermore, the fee level has been chosen to maintain a clear differential between the IPO as a low-cost patents tribunal and the courts, where fees are significantly higher.

Responses were widely supportive, commenting that the cost was marginal in comparison to other litigation costs, and that the idea of staged fees was consistent with the way that the courts operate. We therefore propose to introduce this new fee.

(v) Patent Co-operation Treaty (“PCT”) handling fees

A fee increase was proposed in respect of the PCT transmittal fee, currently £55. This fee is payable when an international patent application is filed at the IPO in its role as a receiving office under the PCT. The increase, to £75, better reflects the actual cost to the IPO of processing international filings, and in particular reflects new procedures that the IPO must undertake in this role, following revision of the Treaty to introduce new procedures which make it compliant with the Patent Law Treaty (“PLT”). The increased transmittal fee would remain commensurate with, and in some cases less than, the equivalent fee charged by other PCT receiving offices.

Furthermore, a specific new procedure under the PCT is the right to request restoration of the right of priority under rule 26*bis*.3. This was also introduced as a part of bringing PLT-compliance to the PCT. It is an equivalent procedure to the “late declaration of priority” procedure which has been available for UK patent applications since 2005, and for which a fee of £150 applies. The procedure allows applicants who have unintentionally missed the 12 month deadline for claiming priority from an earlier application to rectify their oversight, within a further 2 months. The work involved in considering a request for a late declaration of priority on a UK patent application is the same as that involved in assessing a request to restore the right of priority on an international application filed at the IPO in its capacity as a receiving office – and so the proposal was that a £150 fee should similarly apply.

This was another area where respondents were generally supportive and felt the new fees to be reasonable. We therefore propose to go ahead with these fees.

(vi) Procedural fees

We proposed to bring consistency to the fees for various administrative procedures which are available under patents, trade marks and designs legislation. A £50 fee in each case was proposed, which reflects the processing costs for each of the following transactions:

1. Applying on a Patents Form 21 to register or give notice of rights acquired in a patent or in an application for a patent (fee currently set to zero). This would make the fee consistent with the fee for applying to register change of ownership of a trade mark, using a Trade Marks Form TM16.
2. Applying on a Trade Marks Form TM50 to register a licensee (fee currently set to zero)
3. Applying on a Trade Marks Form TM51 to remove or amend the recordal of a licence (fee currently set to zero)
4. Applying on a Trade Marks Form TM24 either to record or cancel a registrable transaction other than an assignment or licence, or to record or cancel a notifiable transaction for a designation under the Madrid Protocol (fee currently set to zero).
5. Applying on a Designs Form DF12A to record a change of ownership or to record or cancel a licence or security (fee currently set to zero). This would

make the fee consistent with the fee for applying to register change of ownership of a trade mark, using a Trade Marks Form TM16.

Again, consultation responses indicated that users were broadly content with these fees, and did not think they would impact significantly on behaviour. We therefore propose to introduce these fees for consistency across IP rights – although it should be noted that the change to the Registered Designs fee is not being made as a part of this Instrument, but will be made with other changes to the Designs legislation in due course.

Costs and Benefits

Sectors and groups affected

Individuals or organisations of any size, in any part of the UK or beyond, and in any area of economic activity (including not-for-profit organisations) may apply for a patent or other IP rights, or may become parties to litigation over IP rights.

As an indication of the numbers affected by the proposed fee changes, the number of UK patent applications received by the IPO in 2007 was 25,745. The number of applications published was 11,872, and 5,930 patents were granted. Around 370,000 patents are in force in total in the UK. The Office also receives around 4,000 international applications annually, filed at the IPO as a receiving office under the PCT. The numbers of patent cases involved in litigation is very small in comparison, probably fewer than 2,000 a year in relation to matters including ownership, licences, revocation, amendments, restoration, surrender or declaration of non-infringement.

Benefits

Clearly, as these are fee increases, there are no monetary benefits to business. However, as explained above, the fee changes will ensure that the IPO remains an effective rights-granting and policy-making body, and provides a well-functioning and value-generating IP system for UK businesses. The non-monetary benefits to business are therefore a stable and high-performing IPO which can continue to administer the UK patents system in a way which is beneficial to innovators in the UK and the rest of the world.

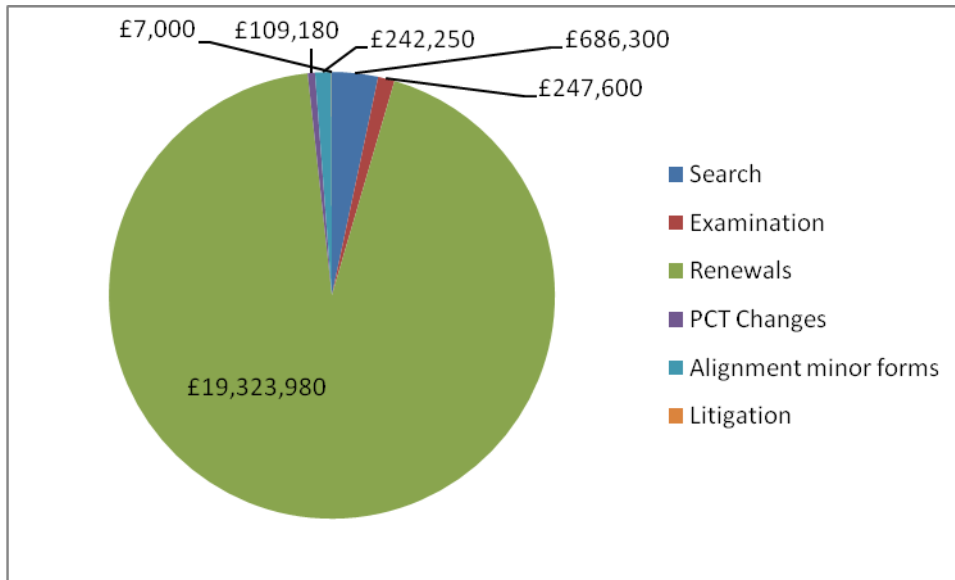
Costs

No non-monetary costs to business are identified. The fee increases result, in total, in an estimated cost to users of the UK patents system of £20.6M.

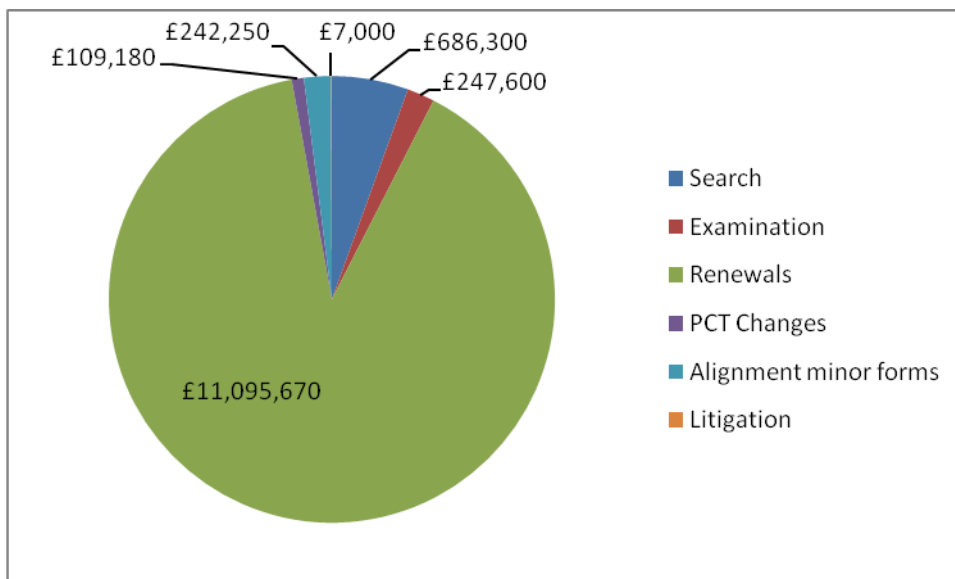
Of course, many individuals and business from outside the UK make use of the system, and acquire rights in the UK, so the cost specifically to UK business will be significantly less than that shown. Our figures indicate that around two-thirds of patent applications have a UK-based first-named applicant on filing.

The cost is spread over many tens of thousands of individuals and businesses who either apply for, hold, challenge or defend patents or other IP rights in the UK.

The estimated cost to business of £20.6M p.a. breaks down as follows:



This gives an estimated increase in IPO income of £12.3M p.a. which breaks down as follows:



The difference between the cost to business and IPO income is accounted for by the fact that a significant proportion of each renewal fee which is paid on a European patent (UK) is passed to the European Patent Office.

Administrative burdens

Fee increases in themselves have no impact on any existing administrative burdens (e.g. the need to fill and file a particular Form or meet a particular deadline). The fee changes therefore have no impact on the administrative burdens imposed by the patents or other IP systems.

Enforcement, sanctions and monitoring

Nobody has to apply for any form of IP and so the application process will not be enforced. Those individuals or businesses who wish to apply to obtain IP rights, or to maintain their rights once granted, will have to pay the fees in the same way as they have to pay the current fees. The only sanction is that if an applicant or rights holder does not comply with the legislation requiring a particular fee to be paid, then their application will not be processed or their granted

rights will cease. Monitoring compliance will be on a case-by-case basis, ensuring that the legislation is complied with as it applies to the individual case. The fee changes do not change any existing enforcement, sanctions or monitoring regimes.

The IPO will assess the effects of the fee changes. There are well-established mechanisms for customers to comment about any aspect of IPO services (see www.ipo.gov.uk/feedback.htm) and a dedicated e-mail account at customer.feedback@ipo.gov.uk). The IPO also has quarterly focus group meetings with the key interest groups, where views can be discussed, and undertakes regular programmes of visits to customers to discuss issues of interest or concern to them. Feedback of all types is regularly collated and checked to ensure that individual complaints are dealt with and any underlying problems are identified and addressed.

Specific impact tests

Competition Assessment

Patents may be applied for or owned by any individual or by any organisation of any size, based in the UK or abroad, and in any economic sector or market. The same applies to those who are not patent applicants or patent holders but who become involved in legal proceedings concerning patents.

We believe that no firm has more than 10% market share in the broad market for IP rights and no three firms together have 50% of the market share.

Clearly the fee changes will affect firms which file large numbers of applications for patents, or maintain those rights when they have been granted, more than organisations which do not. However, other than that, there is no reason to believe that the changes would affect some firms or sectors substantially more than others.

There is no evidence that the changes will affect market structures, or change the number or size of firms.

The changes will apply equally to new or established firms, and so there will not be higher set-up or ongoing costs for new or potential firms that existing firms do not have to meet.

IP rights are all concerned with innovation, so there will be some sectors affected which are characterised by rapid technological change. However, the changes do not affect the nature or scope of any of those rights.

The changes will not restrict the ability of firms to choose the price, quality, range or location of their products. The nature and extent of IP rights will remain exactly the same as under the existing regime.

Finally, the fee changes will not directly or indirectly limit the number or range of suppliers of IP services or of access to the IP system. Neither will they limit a supplier's ability to compete, nor reduce a supplier's incentive to compete vigorously.

Small Firms Impact Test

The IPO does not have information from users on the size of organisation they belong to. However, it is able to identify patent applicants or proprietors who are not represented by an agent of any kind and refers to these as private applicants ("PAs"). While any size or type of organisation may be unrepresented, we believe that most PAs are SMEs or individuals working alone. Conversely, many SMEs or private individuals may employ agents (usually register patent attorneys) and so fall outside our PA category. Nonetheless, information about PAs is the best approximation we have to SMEs.

Our figures suggest that about a quarter of patent applications are filed by PAs, but only about 10% of search requests are from PAs. PA cases are proportionately less likely than others to

be pursued to grant, and to be renewed after grant. Consequently, PAs are proportionately less likely to be affected by the fee changes. In any case, the Office provides extra help and guidance to PAs (including a dedicated support unit and a central enquiry unit), and takes particular care to explain the legal requirements and procedures involved in obtaining patent protection. This helps ensure that PAs understand the requirements of the system and can make an informed decision about whether or not to progress down a particular route or pay a particular fee.

As noted above, many SMEs or private individuals who use the patents system may employ a patent attorney or other agent to advise them and act on their behalf before the IPO. Statutory fees are generally small in proportion to the fees charged by such representatives, and so SMEs who choose to use representation in this way are not likely to be significantly affected by the proposed fee changes.

Finally, as noted above, we have of course modified our proposals for up-front fee increases significantly, specifically in order to address concerns raised during the consultation that the increases as originally proposed may have been detrimental to innovative SMEs or individuals wishing to access the patents system.

Overall, we believe that the changes will not have any disproportionate adverse impact on SMEs.

Legal Aid

The manner in which the patents system will continue to operate mean that the changes will have no impact on legal aid in the UK.

Sustainable Development

The manner in which the patents system will continue to operate mean that the changes will have no impact on sustainable development.

Carbon Impact and Other Environment Assessment

The increase in the discount for the electronic filing of a search or examination request will encourage greater use of electronic filing services over paper filing at the IPO. The environmental impact of this is positive, but is likely to be small and at this time is not possible to quantify.

Health Impact Assessment

The manner in which the patents system will continue to operate mean that the changes will have no impact on public health in the UK.

Race Equality Assessment

The manner in which the patents system will continue to operate mean that the changes have no bearing on race equality. The procedures and fees apply equally to all users of the patents system, regardless of race.

Disability Equality

The manner in which the patents system will continue to operate mean that the changes have no bearing on disability equality. The procedures and fees apply equally to all users of the patents system, regardless of any disability, and in fact the introduction of e-filing may have had a beneficial access impact for those with limited mobility.

Gender Equality

The manner in which the patents system will continue to operate mean that the changes have no bearing on gender equality. The procedures and fees apply equally to all users of the patents system, regardless of gender.

Human Rights

The manner in which the patents system will continue to operate mean that the changes have no impact on human rights.

Rural Proofing

The manner in which the patents system will continue to operate mean that the changes have no impact on rural areas or life.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	No	No
Rural Proofing	No	No

