

## 4 Desirable Financial Policies and Fee Systems for Industrial Property Rights

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*Desirable financial policies and fee systems for industrial property rights is changing, reflecting current social conditions. For instance, there is so-called License of Right system, which is a fee system giving a discount to a patentee who has registered his willingness to license his or her patent to a third party. As License of Right system is considered to facilitate open innovation, the need to introduce the system into Japan is increasing.*

*On the other hand, there is a fee system giving a discount to applicants and right holders who meet certain requirements, if they are universities, individuals, small entities. This system is also considered to facilitate innovation.*

*In this study, the financial policies and fee systems of other countries intellectual property offices and are surveyed and the desire and situations of domestic universities, research institutions, companies, etc are surveyed. Desirable financial policies and fee systems were reviewed on basis these survey and analysis.*

### I Introduction

The purpose of this study is to prepare basic data to help the Japanese government implement a proper fee systems and an effective financial management policy by conducting a survey and analysis of the financial management policies, fee systems, and financial policies of overseas intellectual property offices and also a survey and analysis of the domestic needs for improvement of the current financial policy and the introduction of a new fee system.

Furthermore, based on the results of the survey on the domestic needs and the survey on the financial policies of other countries, this study explores how to improve the fee systems and financial policies in Japan and takes into consideration when devising a new financial policy while exploring the contents of such a new policy with focus on the reduction system and so-called License of Right system.

In this study, the following surveys were conducted and analyzed.

#### **(1) Survey on the financial policies of other countries and a survey on the users of the overseas fee systems**

We conducted a questionnaire survey on the overseas intellectual property offices, institutions and attorneys in other countries. We also carried out an interview survey on the companies, universities, and TLOs (Technology Licensing Organizations) in other countries in order to examine and analyze how the financial policies of those countries had been implemented and how the respondents regarded those policies.

#### **(2) Survey on domestic needs**

We conducted a questionnaire survey and an interview survey on universities, research institutions, companies, etc. (including those who have used the reduction system) in order to examine the current state of the financial policy and the respondents' opinions and needs.

#### **(3) Desirable financial policy and fee system**

With the focus on the reduction and exemption system and the License of Right system, We explored the current and future Japanese financial policies based on the results of the survey on the overseas financial policies and fee system and the survey on the opinions and needs of the users of the fee system systems in and outside Japan.

### II Overview of the Financial Policies of Other Countries and Organizations and Their Revenue/ Expenditure Management and Fee systems

Research was conducted on the accounting systems, financial policies, and fee system of the United States, the United Kingdom, Germany, France, China, South Korea, the EPO, and WIPO.

#### **Accounting systems and financial policies**

In the United Kingdom and France, the revenues and expenditures related to industrial property rights are completely independent from the national general accounting. Similarly, in the United States and South Korea, the revenues and

expenditures related to industrial property rights are managed separately from the rest. The revenues related to industrial property rights are used to cover the industrial property-related expenditures in principle. In Germany and China, such revenues are managed within the framework of general accounting. The financial policies for industrial property rights vary from one country to another as follows:

### **Fees for patent acquisition**

Under the industrial property financial policies of the countries and organizations, the total amount of fees for acquisition of a patent (application fee, search fee, examination request fee, patent issuance fee, patent maintenance fee, etc.) depends on various factors such as an additional fee for an additional claim. In the United Kingdom, Germany, France, China, and South Korea, the fees for acquisition of industrial property rights are as low as less than 50% of the fees in Japan. In the United States, the total of the application fee, search fee, and examination request fee is about 50% of the corresponding fees in Japan. The total amount of fees for acquisition of a patent including the issue fee, which needs to be paid at the time of grant of a patent, in the United States is almost the same as the total amount of fees in Japan. On the other hand, the fees for acquisition of a patent from the EPO are about twice the fees in Japan. However, since said EPO fees include the patent issue fee, which needs to be paid for acquisition of a patent, in the case of a patent application that is abandoned in the middle of the patent acquisition process, the fees for patent acquisition are about 1.5 times higher than those in Japan.

### **Additional fee for an additional claim included in the application fee or the search fee and the examination request fee**

Japan, the United States, France, China, South Korea, and the EPO have adopted the policy of adding a fee for each additional claim when calculating the application fee or the search fee and the examination request fee. Germany plans to introduce such an additional fee system in July 2009 at the earliest. The United Kingdom is the only country that does not add a fee for each additional claim.

### **Additional fee for each additional claim included in the patent fee or the patent maintenance fee**

Only Japan and South Korea have adopted the

fee system of adding a fee for each additional claim in calculating the patent fee or the patent maintenance/annual fee. In other countries, the number of claims does not affect the patent fee or the patent maintenance/annual fee.

All of the countries and organizations subject to this study except for the United States require each patent applicant to start paying the patent fee or the patent maintenance/annual fee on an annual basis a few years after the filing of the application or from the registration of the patent. Only in the United States, the patent maintenance fee is required to be paid in a lump sum by the 3.5 years, the 7.5 years, and the 11.5 years of the patent registration date. All of the countries and organizations have adopted the financial system of increasing the amount of fee according to the age of the patent.

### **Fees related to trademark rights**

Only Japan and South Korea demand the payment of the registration fee at the time of the grant of the trademark. The application fee is determined based on the number of classifications. In Japan, a part of the application fee is called a basic fee, which is not affected by the number of classifications. While this basic fee is relatively low in comparison with the United States and European countries, the registration fee in Japan is as high as the application fee of those countries. It should be noted that neither search nor examination on prior trademarks is conducted in the United Kingdom, Germany, France, and South Korea. The renewal fee is relatively high in Japan.

## **III Special Fee System (1)-License of Right System-**

Among the countries subject to this study, only the United Kingdom and Germany have adopted the License of Right system. France abolished this system in 2005.

The License of Right systems of the United Kingdom, Germany, and France (up to 2005) share the following characteristics:

- (1) Certain restrictions are imposed on the right to request an injunction;
- (2) A declaration of License of Right may be withdrawn;
- (3) If the patentee and a third party fail to agree on the licensing conditions, they may use the system to decide those conditions;
- (4) The grant of an exclusive license is prohibited; and
- (5) A declaration of License of Right entitles the

patentee to a 50% reduction of the patent maintenance fee (patent fee) (a 40% reduction in France).

On the other hand, their License of Right systems differ in the following respects:

- (1) The period during which a declaration of License of Right may be made (after the filing of an application or after the registration of a patent);
- (2) The scope of a declaration of License of Right (a declaration may cover only the patent for which the declaration is made or may cover all of the patents granted based on a single application);
- (3) The definition of the time when a license granted to a third party upon request takes effect (a license is considered to take effect when the third party's notice reaches the patentee or when both parties agree on the conditions of licensing);
- (4) The party that leads the negotiations on the licensing conditions (the patentee or the third party);
- (5) The presence or absence of the provision that obliges the licensee to pay compensation to the patentee (if the licensee fails to fulfill the obligation, the patentee may request an injunction);
- (6) The presence or absence of the provision concerning the rights of the licensee; and
- (7) The presence or absence of the mandatory system to register License of Right declarations.

The implementation and use of the License of Right systems in the United Kingdom and Germany are the same in the following respects:

- (1) The intellectual property office provides the public with the system to search and refer to the patents for which a declaration of License of Right has been made; and
- (2) The ratio of the number of registered patents to the total number of patents or patent applications is 5% or less.

#### **IV Special Fee System (2) -Reduction and Exemption System-**

Among the countries and organizations subject to this study, the United States, France, China, and South Korea have a reduction and exemption system for individuals, small and midsize companies, and research institutions. Germany has a legal support system for

individuals. However, this system does not specify application criteria and has the characteristics of emergency measures. The United Kingdom and the EPO do not have such a reduction and exemption system.

The reduction and exemption systems of the United States, France, China, and South Korea are described as follows.

#### **Fees subject to reduction and the reduction rates**

The United States and France apply a flat reduction rate of 50% regardless of the qualifications of an applicant. China and South Korea offer a 50-85% reduction depending on the qualifications of the applicant.

Many countries have adopted the policy of reducing or exempting the patent maintenance fee or the patent fee for a certain period of time. In contrast, the United States reduces or exempts those fees until the expiration of the right. France reduces those fees for a period of seven years from the application date, while the rate of reduction decreases over those years. China reduces the patent maintenance fee, which needs to be paid once a patent is granted, for a period of five years. South Korea reduces the patent fee for a period of three years.

In the United States, small entities (individuals, small and midsize companies, and non-profit organizations) are entitled to a reduction or exemption as long as they have neither assigned nor licensed their rights to inventions to other individuals, companies, organizations, etc., that are not recognized as small entities. The reduction rate is 50%.

A wide range of fees is subject to reduction. For example, in the case of a patent right or a design right, the minimum costs generated over the period between the application filing date and the patent expiration date will be subject to reduction (the basic application fee, the additional fee for an additional claim, the additional fee for an additional page, the search fee, the examination request fee, the patent issuance fee, the re-examination request fee, the trial request fee, the patent maintenance fees paid by the three-and-a-half year anniversary, the seven-and-a-half year anniversary, and eleven-and-a-half year anniversary of the patent registration date).

In France, the rate of reduction is 50% (except for some patent maintenance fees) for individuals, small and midsize companies, and research institutions. France offers a 50% reduction for the examination request fee and the

patent maintenance fee for the period from the second anniversary to the fifth anniversary of the patent application date and a 25% reduction for the patent maintenance fee for the period from the sixth anniversary to the seventh anniversary of the patent application date.

China offers an 85% (80% in some cases) reduction to individuals and a 70% reduction to small and midsize companies. When a patent applicant or patentee is an individual, China offers an 85% reduction for the application fee and the examination request fee and also for the patent maintenance fee for the period from the first anniversary to the third anniversary and an 80% reduction for the application maintenance fee and the fee to request a trial against an examiner's decision of refusal. When a patent applicant or patentee is a company, China offers a 70% reduction for the application fee and the examination request fee and also for the patent maintenance fee for the period from the first anniversary to the third anniversary and a 60% reduction for the application maintenance fee and the fee to request a trial against an examiner's decision of refusal. In the case of an application jointly filed by two or more companies, no reduction is available.

In South Korea, a 70% reduction is offered to individuals and small and midsize companies. A 100% reduction is offered to an individual who satisfies certain criteria such as an individual with little financial means. A 50% reduction is offered to public research institutions, national and local governments, governmental investment institutions, etc., and large companies that conducted research and development activities jointly with small and midsize companies and became joint patentees of the resulting inventions. The fees subject to the reduction are the patent application fee, the utility model application fee, the examination request fee, the fee to request technical appraisal, the fee to request a trial for confirmation of the scope of right, and the registration fee for the first to third year.

#### **Procedure to receive a reduction**

In China and South Korea, any person who applies for a reduction is required to submit certificates (In South Korea, any individual who applies for a 70% reduction is not required to submit certificates). In South Korea, the submission of certificates is required for every procedure.

On the other hand, in the United States, the procedure to receive a reduction is much simpler.

An applicant or a patentee is only required to claim one's qualification for a reduction. However, the provision concerning fraud specifies that, if it is later found that an applicant has obtained a patent at reduced fees despite the lack of small entity qualification, the applicant shall be prohibited from exercising the patent.

In France, until the revision of 2005, a reduction had been available only to individuals. Each applicant used to be required to submit certificates every year. Since the revision, a reduction is automatically offered to individual applicants. Article L612-20 of the revised Intellectual Property Code specifies that any misrepresentation shall be subject to a fine that does not exceed ten times the amount of the fees.

#### **Use of a reduction system**

The survey on overseas patent attorneys conducted in this study reveals that applicants in any country with a reduction system are strongly recommended to use a reduction system if they are qualified for the reduction. In the United States, however, the provision concerning fraud discourages an applicant from using a reduction system when the applicant is not certain about his or her qualification status.

A reduction system is received favorably by patent attorneys in all of the surveyed countries because it is a system that offers a discount upon and after patent acquisition without any disadvantage.

In the United States and South Korea, since the use rates of their reduction systems stand at several-dozen percent, each of these countries has a fee system or a budgetary structure designed to supplement the decrease in its revenue caused by the reduction system.

## **V Special Special (3) -Other Systems-**

The countries subject to this survey, i.e., the United States, the United Kingdom, Germany, France, China, and South Korea, have special fee system as follows.

#### **System to refund an applicant who has overpaid or withdrawn his or her application**

(United States) (1) Any overpayment will be refunded upon request. (2) The search fee and the additional fee for an additional claim will be refunded to an applicant who has withdrawn his or her application before the commencement of examination.

(United Kingdom) The fee already paid will be refunded if a supplementary protection certificate (a patent whose protection period has been extended) is canceled or invalidated.

(Germany) If an application is withdrawn or if an application is invalidated because the applicant has failed to fully pay the fees, the fees already paid will be refunded after the deduction of the refund fee as long as the procedure for the already paid fees has not actually been started yet.

(South Korea) (1) Any fee paid by mistake or in excess will be refunded upon request. (2) If a patent is invalidated, the patentee may request a refund of the part of the patent fee that is allocated to the following fiscal year and subsequent years. (3) If a patent is withdrawn within one month from the application filing date, the application fee and the examination request fee will be refunded upon request.

#### **Reduction system for a patent application with a search report**

(United Kingdom) The search fee is reduced for a patent application transferred from the PCT international phase to the national phase.

#### **Reduction system for a lump-sum payment**

(Germany) A reduction is given to a patentee who pays the patent maintenance fee in a lump sum for the third to fifth year.

#### **A reduction for multiple applications**

(Germany) A reduction is offered to an applicant who files two or more applications for a design.

## **IV Study on Desirable Financial Policies and Fee Systems of Japan for Industrial Property Rights**

### **1 Questionnaire Surveys**

We conducted a questionnaire survey on universities, research institutions, companies, etc. (including those who have used the reduction and exemption system) in order to analyze their opinions and needs concerning the fee system for industrial property rights, a reduction and exemption system, and the introduction of the License of Right system.

### **Questions regarding the fee systems for intellectual property rights**

In response to the question about the appropriateness of the amounts of fees for industrial property rights (patent rights, utility model rights, design rights, and trademark rights), 57.5% responded that all of the fees were appropriate, 31.5% responded that the fees related to certain rights were too high, and 1.7% responded that the fees related to certain rights were too low. (Q13) 79.3% responded that the patent-related fees were too high.

77.0% responded that the application fee was set at a reasonable level. On the other hand, 74.6% responded that the examination request fee was too high, while 18.9% responded that said fee was appropriate. (Q14)

When asked why they filed a patent application and sometimes abandoned the right before registration, 74.8% responded that the need for the right itself decreased. 60.7% responded that the issuance of a notice of reasons for refusal became unavoidable. 15.4% responded that the examination request fee was too high. 13.9% responded that the total of the patent acquisition fees and the patent fee was too high. (Q15)

Regarding the average length of the patent maintenance period after registration, 42.1% responded that the length was somewhere between ten years and the expiration of the patent. 30.6% responded that it was somewhere between seven years and nine years. 10.6% responded that it was somewhere between four years and six years. 5.0% responded that it was three years or shorter. (Q12)

Regarding the reason for abandoning a right after the registration, 74.4% responded that the need for the right itself decreased. 21.7% responded that the patent fee was too high. 25.4% responded that the patent maintenance fee was too high. (Q16)

### **Fee reduction policy**

Among the respondents that have received either a reduction or exemption of the examination request fee for a patent or a reduction or exemption of the patent fee for the first to third year, 88.8% of them received a 50% reduction of the examination request fee. Among the respondents who received a 50% reduction of the examination request fee, 43.9% of them also received a 50% reduction of the patent fee for the first to third year, for which those respondents were likely to be qualified. (Q31)

When asked the reasons for not using the reduction and exemption system in some cases, the respondents who had used such a system pointed out the failure to satisfy the criteria, the complicated procedure to receive a reduction or exemption, and the excessively small amount of reduction. (Q33)

In response to the question on the effect of the reduction or exemption system, i.e., whether the provision of a reduction or exemption for the patent examination request fee or the provision of a reduction, exemption, or moratorium for the patent fee for the first to third year had encouraged universities, research institutions, small and midsize companies, and individuals to obtain patents, 26.0% of the respondents responded that the system had greatly promoted patent acquisition. 57.3% responded that the system had promoted patent acquisition to a certain degree. (Q29)

With regard to the amounts of reduction offered under the reduction and exemption system, 61.2% responded that the amounts were sufficient. 30.4% responded that the amounts were insufficient and stated in the free comment section that a 50% reduction would be insufficient because the examination request fee was very high, that a reduction or exemption of the patent fee had only a negligible effect because the patent fee for the first to third year was set at a relatively low level, and that a reduction was not available for the patent fee for the fourth year and subsequent years. (Q30)

### **Introduction of a new fee system (the License of Right system)**

Concerning the introduction of the License of Right system, 11.7% responded that they strongly supported the introduction. 35.1% responded that they rather preferred to see the system introduced. 38.8% responded that they had no preference on this matter. 3.5% responded they did not prefer to see the system introduced. 0.7% responded that they opposed the introduction. (Q50)

In response to the question about the types of patents they might register and the reason for registering them if the License of Right system is introduced, 37.7% responded that they would register patents unused by the patentees. 37.3% responded that they would use the system with the hope of finding licensees. 36.0% responded that they would use the system in order to lower the patent maintenance costs. 15.6% responded that they would register patents for which the

patent fees have become expensive. 8.7% responded that they would register a patent if the registration would not disadvantage them among their competitors. (Q49)

With regard to the reasons for not using the system, 47.7% responded that the purpose of obtaining patents was to protect their products. 28.2% responded that they were not allowed to choose licensees. 21.9% responded that their patents were jointly owned or already subject to contracts. 12.4% responded that a 50% reduction of the patent fee was not attractive. 8.7% responded that the registration of a patent would be disadvantageous in terms of enforceability and judicial proceedings.

## **2 Interview survey**

We conducted an interview survey on universities, research institutions, companies, and organizations. The respondents presented the following opinions and requests while their view on the current financial policy and fee systems was mostly favorable.

### **The examination request fee for patent applications**

Applicants find it difficult to decide when to request examination because the future of the technology related to the patent is difficult to predict. Furthermore, they find it burdensome to be required to pay the examination request fee without a guarantee for the grant of a patent.

### **Patent fee**

Patentees find it burdensome to pay the patent fee for patents that have been registered for 10 years or longer since registration. Furthermore, with regard to the patent fee for the expiration year, patentees find it burdensome to be required to pay the patent fee for a full year even if the patent expires in the middle of the year.

### **Reduction and exemption system**

Many respondents voiced favorable opinions about the cost-cutting effect of a 50% reduction or exemption of the examination request fee. However, respondents find it troublesome to pay the personnel cost and attorney's cost for preparation of applications for reduction and exemption and to file an application for reduction and exemption every time they hope to receive a reduction or exemption under the system.

Regarding the patent fee, a reduction and

exemption system is not used in some cases because of the facts that the system is not applicable to a patent that has long been registered, that the patent fee is set at a low level as far as the fee for the first to third year, which is subject to this system, is concerned, and that the personnel costs and attorney's costs for applying for a reduction or exemption are expensive.

### **Introduction of the License of Right system**

In order to promote licensing of patents, it is important not only to introduce a legal system but also to create a desirable environment to and provide support for active use of the system. More specifically, the following measures should be taken: improvement of the database, introduction of a mechanism to support proper licensing negotiation and contract making, and establishment of a system to promote commercialization of patented technologies licensed under the system.

With regard to the use of the system, both patentees and licensees are concerned that they might be forced to conclude an unfair license agreement in terms of license fees, etc.

From the viewpoint of patentees, the registration of a declaration of License of Right for a patent would increase the risk of encountering an infringer who intentionally takes advantage of the restriction imposed on the enforceability of the patent right such as the right to request an injunction.

On the other hand, from the viewpoint of licensees, a patent licensed under the system could become unenforceable because of the existence of another patent for a dependent invention.

## **Ⅶ Desirable Financial Policies and Fee Systems and needs to be improved**

Based on the results of the questionnaire survey and interview survey described above, which have revealed the existing needs for improvement of the current financial policy and fee systems for industrial property rights and also based on the findings of the survey on the financial policies of other countries, this study revealed applicants' opinions and needs that Japan should take into consideration when devising a new financial policy and explores a desired new policy.

Many applicants find the examination request fee burdensome in the respects that they are

required to decide when to request examination despite the difficulty in predicting the future of the technology related to the patent and that they are required to pay the examination request fee without a guarantee of the grant of a patent.

With regard to the current reduction and exemption policy, applicants find it burdensome to bear the personnel costs and attorney's costs for preparation of applications for a reduction or exemption and to file an application every time they hope to receive a reduction under the system. The system is not used in some cases because the patent fee is set at a low level for the first to third year. In order to reduce the burdens on applicants who apply for a reduction, it would be necessary to review the application procedure and study the possibility of allowing applicants to receive various types of reduction and exemption through one-stop application for such benefits.

With regard to the introduction of the License of Right system, in order to promote licensing of patents through the system, it would be important to create a desirable environment in order to increase the usability of the system. For instance, it would be recommended not only to offer legal collateral but also to have a database indicate the patents registered under the License of Right system, to establish a system to support license negotiation and contract making, and to introduce a mechanism to facilitate the exploitation and commercialization of the patented technologies licensed under the system.

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