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Dear Sean

Reform of the Boards of Appeal

Ahead of the next EPO Administrative Council meeting on 29-30 June 2016 the EPO has made available paper CA/43/16 outlining proposals for the reform of the EPO Boards of Appeal (BoA).

The paper concerns proposed structural reorganisation of the BoA, the implementation of a new career system, the proposed relocation of the BoA, a proposed new fee policy for appeals, and the introduction of rules on conflicts of interest for Office employees along with members of the BoA and the Enlarged Board of Appeal (EBoA).

As users of the EPO and of its appeal system our principal concern is that applicants, and opponents, find an appeal forum capable of producing timely, high quality judgments. Decisions of the BoA impact patents having territorial scope covering the majority of Europe and thus have significant commercial consequences.

One matter negatively affecting the functioning of the BoA is the perceived lack of judicial independence of certain members stemming from the issues highlighted in R19/12. It is critical for users that the BoA should give judicially independent decisions. We welcome the recent publication of the opinion of Professor Sarooshi which outlines what may be done in seeking to address this problem. We consider it is critically important that the Administrative Council obtains its own legal opinion on the proposals for structural reform to ensure that they meet the standards for judicial independence set out by Professor Sarooshi. Users of the system will not benefit from the reforms if there is any likelihood that they fail to ensure the independence codified in Article 23 EPC which may lead to further referrals to the EBoA.

There continue to be significant staff shortages in the BoA. In spite of new appointments in the first half of 2016 there are 20 vacancies at the technical Boards accounting for 14% of all posts¹. This number is already out of date and is set to rise over the coming year. The average duration of technical appeals in 2015 was 35.9 months (a 4.7% increase over the previous rolling 12 months)². The staff shortages and lengthy pendency undermine the operational viability and efficiency

¹ Business Distribution Scheme of the Technical Boards of Appeal effective 1 April 2016.

² CA/44/16

of the Boards and directly affect the user community. Indeed in his legal opinion Professor Sarooshi opines that “this inordinate delay potentially in itself constitutes an impairment of the right to access to a fair dispute resolution process”³.

It is therefore essential that proposals for structural reform are scrutinised extremely carefully to make sure they clearly and directly contribute to addressing these operational concerns by ensuring appropriate resource allocation in the future. Additionally, any proposal that may detract from or undermine operational viability and efficiency of the Boards must be considered very carefully.

We have the following specific comments on CA/43/16.

NEW FEE POLICY FOR APPEALS

The new fee policy for appeals outlined in CA/43/16 comes as a surprise and is unrelated to any of the original motivations for the reform proposals. It is noted that the proposal has not been subject to consultation with the user community (such as via SACEPO) before being placed before the Administrative Council.

The proposed increases would see the level of the appeal fee rise to €7,350 by 2021 (25% direct cost coverage) amounting to an almost quadrupling of the current appeal fee. Such an increase is strongly discouraged. In this regard the following observations are made:

1. The financial model of the EPO (like many other patent offices) is principally based on receipts from renewal fees. Indeed in 2015 the renewal fee and other non-attributable income of the EPO amounted to 135% of the costs not otherwise covered by procedural fee income⁴. Accordingly, no procedural step at the EPO is intended or expected to cover its costs. Introducing a linkage between cost recovery and the appeal fee is inconsistent with this principle. Indeed, an appeal fee at the level envisaged acts as a significant barrier to the appeal procedure constituting more than the aggregate value of all other EPO procedural fees combined. If the appeal fee were to increase to the levels proposed then at least some corresponding reduction in other parts of the procedure must be envisaged.
2. The overall expenditure of the EPO that is not covered by procedural fee income (i.e. excluding renewal, designation and other non-attributable income) is €843.2m of which 61% is attributable to the search procedure, 13% to the examination procedure and only 8% to the appeal procedure⁴. Thus in terms of the overall expenditure of the EPO the appeal function in fact contributes among the lowest proportion of cost not recovered by procedural fees.
3. CA/43/16 focuses on the cost coverage of the appeal procedure based on direct income through appeal fees. The cost coverage appears low in contrast to other EPO procedures such as search or examination. However this analysis in CA/43/16 does not account for the volume of appeals relative to these other procedures. i.e. there are far fewer appeals than any other procedural action at the EPO (filing, search, exam or opposition).

³ Legal Opinion of Professor Dan Sarooshi, 23 November 2015, paragraph 13 page 16

⁴ CA/45/16 annexes 3 and 5

4. The appeal procedure is an essential mechanism for seeking judicial review of EPO decisions for both examination and opposition proceedings. Appeals thus serve the best interests of justice and also provide a quality control mechanism at the Office. To the extent that an appeal achieves quality control in some cases, to levy such high fees on users to achieve the requisite quality is unreasonable. This is particularly so in *ex parte* cases where high appeal fees may act as a barrier to justice, for small and medium sized enterprises in particular, against mistaken decisions of an Examining Division.
5. In addition to achieving some degree of cost coverage appeal fees dissuade speculative or frivolous appeals. Even with the current appeal fee level the number of appeals in 2014 only accounted for approximately 1.5% of total applications and oppositions filed indicating there is clearly no problem with frivolous appeals.
6. CA/43/16 compares the current EPO appeal fee with the proposed fee for revocation before the Unified Patent Court (UPC) and the fee for inter partes review at the USPTO. Neither of these procedures are comparable appeal procedures. A more appropriate comparison can be made with the USPTO appeal procedure costing approximately €2500 (\$800 to file and \$2000 to forward to the appeal board) and the Japanese appeal procedure costing approximately €1080 (¥49,500 + ¥5,500 per claim - calculated on basis of 15 claims). In this context it can be seen how the proposed increased level of appeal fee at the EPO is far in excess of both the equivalent USPTO and the JPO fees.

In summary, the current level of EPO appeal fee appears appropriate in view of the contribution to the overall costs of the Office and in comparison with the equivalent fees of other patent offices. Increasing the appeal fee to the proposed level would likely lead to first-instance procedures operating with much reduced judicial review having a consequent effect on the quality and reputation of the EPO.

STRUCTURAL REFORM OF THE BOARDS OF APPEAL

The proposal seeks to address the *perception* of independence of the BoA. We encourage equal focus on the *substance* of the independence and, in particular, that the BoA are independent not only of the European Patent Office as executive organ of the Organisation but also of the Administrative Council as pseudo-legislature (with due account of the need for checks and balances).

Rule 12c(1) of the proposed amended Implementing Regulations sets out the composition of a proposed Board of Appeal Committee (BoAC). The daily running of the BoA will include practicalities of which members of the AC and national judges will be unaware. Input from BoA members would be extremely helpful in ensuring the BoAC gives sensible oversight. Accordingly, it is sensible that one or two members of the BoA are members of the BoAC with voting rights (or, at the very least, included as observers). It would also be most helpful for the user community to have observer rights at meetings, and including representation from epi and BusinessEurope would assist in reassuring users that their interests of a fair, timely and efficient judicial process are taken into account.

Considering the tasks of the BoAC defined in Article 4 of the proposed Regulations of the BoAC:

1. **Article 4(2)(b): Making recommendations on setting objectives for members and Chairmen of the BoA and the members of the EBoA**

The Administrative Council has a key role in defining performance expectations of the BoA, such as by setting objectives of a President of the BoA. A determination of an appropriate method through which a President of the BoA carries out his/her duties in seeking to meet those objectives must rest with the President of the BoA. The nature of "recommendations" of the BoAC and their effect and influence on the work of the President of the BoA, the BoA and EBoA members is not clear and may serve to reduce independence of the BoA.

2. **Article 4(2)(c): Guiding on BoA recruitment issues**

The proposed delegation of functions and powers includes the right to propose the appointment of BoA members and to be consulted in the cases of re-appointments. In this regard it is not clear what guidance the BoAC will provide to the BoA and this task of the BoAC appears only to potentially reduce the independence of the BoA in carrying out these delegated powers.

3. **Article 4(2)(d): Recommending criteria for case distribution**

Case distribution and the business distribution scheme of the BoA are key tasks of the Boards themselves and the power to undertake these tasks within the remit of performance objectives agreed between the Administrative Council and a President of the BoA would rest entirely with an independent BoA.

4. **Article 4(3): Adoption of the Rules of Procedure of the BoA and the EBoA**

Since the very conception of the EPC and its Implementing Regulations the Rules of Procedure of the BoA and EBoA have been adopted by the Presidium of the Boards of Appeal - i.e. by the boards themselves⁵. Article 23 EPC contains provisions which are intended to ensure the "Independence of the members of the boards", that being the title to this Article. Thus on the basis of the Convention itself it is beyond doubt that members of the boards shall not be bound by any instructions and shall comply only with the provisions of the Convention⁶. While the Administrative Council shall approve the Rules of Procedure of the Boards, they have no power to modify them.

The proposals of CA/43/16 depend on the competence of the Administrative Council to amend the Implementing Regulations⁷. However, the proposal exceeds the competence of the Administrative Council. The Enlarged Board already considered the competence of the Administrative Council to amend the Rules of Procedure of the Boards in G6/95⁸:

⁵ Rule 10(3) EPC 1973 and Rule 12(3) EPC 2000

⁶ Article 23(3) EPC

⁷ CA/43/16 paragraph 19 and Article 33(1)(c) EPC

⁸ G6/95 reasons 2 and 4

"Article 23(3) EPC provides that "In their decisions the members of the boards shall not be bound by any instructions..."

...

Rules 10(2) and 11 EPC [1973] are the sole provisions in the Implementing Regulations which relate to the mechanism for adopting the RPBA. Article 23(4) EPC provides in its second sentence that the RPBA "shall be subject to the approval of the Administrative Council". It follows that the power under Article 23(4) EPC to amend the RPBA after they have been adopted and approved belongs to the Praesidium of the Boards of Appeal, subject to the approval of the Administrative Council.

...

According to Article 33(1)(b) EPC [1973], the Administrative Council is competent to amend the Implementing Regulations. There are obviously limits to the exercise of its powers, however. In fact, Article 164(2) EPC states that: "In the case of conflict between the provisions of this Convention and those of the Implementing Regulations, the provisions of this Convention shall prevail". Therefore, the Administrative Council may not amend the Implementing Regulations in such a way that the effect of an amended Rule would be in conflict with the EPC itself."

It is therefore recommended that the proposals are amended to ensure that the Rules of Procedure of the BoA and EBoA continue to be adopted (prepared and modified) only by the boards themselves, subject to the approval of the Administrative Council such as by way of the BoAC.

It is further noted that the independence *in substance* of the BoA under the proposals of CA/43/16 depend entirely on a delegation by the President of the Office. As confirmed by Professor Sarooshi, such a delegation can always be revoked⁹ and despite the delegation the President of the Office will retain the right to exercise the delegated power(s)¹⁰. The proposed delegation itself includes clear limitations such as the reservation of powers where there "is or could be an impact on the European Patent Office"¹¹ and that the Office President can comment on management reports of the BoA Unit *before* submission to the Administrative Council¹².

These limitations of the independence *in substance* of the BoA coupled with the apparent challenges in the relationship between the Office President and the BoA may lead to further referrals to the Enlarged Board to question the very basis of such reforms, all of which could impact the ability of the Boards to carry out their essential work to the detriment of users.

In this regard it is noted that the issue of conflict of interest considered in the Enlarged Board decision R19/12 (on which basis the majority of the present proposals were instigated) is readily addressed by having the Chair of the EBoA subject to a supervisory authority other than that of the Executive (the European Patent Office). The wide-ranging additional proposals contemplated in CA/43/16 extend far beyond this fundamental principle and introduce challenges of their

⁹ Legal Opinion of Professor Dan Sarooshi, 23 November 2015, paragraph 7(i) page 6

¹⁰ Ibid. paragraph 7(ii) page 6

¹¹ Article 3(d) Act of Delegation (Proposed)

¹² Ibid. Article 3(b)

own, in particular by leaving final approval to the President of the Office. It would seem more appropriate for final approval to be given by the BoAC.

LOCATION OF THE BOARDS OF APPEAL

The continued presence of the BoA in Munich is welcomed.

The proposal to physically relocate the BoA within the city exemplifies the emphasis on the *perception* of independence. It is not accepted that the BoA are unable to operate independently when co-located in premises of the EPO and certainly not when the BoA are located in premises largely dedicated to the BoA such as the Isar building in Munich (save for the offices of the President and certain other administrative functions). It is noted that there are no Examiners in this building.

Accordingly, the proposed expenditure on new premises with associated leasing and fitting-out costs is considered unnecessary. This is particularly the case in view of the anticipated opportunity to rent-out EPO office space at PschorrHöfe. Rather, if it is essential to separate the BoA from all other EPO staff, it would be considerably cheaper to move non BoA staff from the Isar building to a different office.

I trust it will be possible for the Administrative Council of the EPO to take these views into account.

Yours sincerely

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President, IP Federation



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