



COVERSHEET

| | | | |
|------------------------|--|----------------------|-------------------------------|
| Minister | Hon Kris Faafoi | Portfolio | Commerce and Consumer Affairs |
| Name of package | IPONZ Fees Review: Final Policy Approvals | Date of issue | 29 March 2019 |

List of documents that have been proactively released

| Date | Title | Author |
|-----------------------------------|---|----------------------------------|
| November 2018 | <i>Cabinet Paper – Intellectual Property Fees Review: Final Policy Approvals</i> | <i>Office of Minister Faafoi</i> |
| 20 February 2019 and 8 March 2019 | <i>Cabinet Minutes</i> | <i>Cabinet Office</i> |
| November 2018 | <i>Cost Recovery Impact Statement – Regulations to Adjust Patent and Trade Mark Fees</i> | <i>MBIE</i> |
| November 2018 | <i>Intellectual Property Fees Review: Summary of Submissions</i> | <i>MBIE</i> |
| Various | <i>Submissions received in response to Intellectual Property Fees Review Consultation</i> | <i>General public</i> |

Information withheld

Some parts of this information release are not appropriate to be released and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified and are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Reason for withholding

To protect the privacy of natural persons, including that of deceased natural persons

To maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any department or organisation in the course of their duty

In Confidence

Office of the Minister of Commerce and Consumer Affairs

Chair, Cabinet Economic Development Committee

Intellectual Property Fees Review: Final Policy Approvals

Proposal

- 1 I seek Cabinet approval of the final proposals for changes to cost recovery fees for trade mark and patent services, to issue drafting instructions to give effect to these proposals and to increase funding of intellectual property services to align with the new fees.

Executive Summary

- 2 The Intellectual Property Office of New Zealand (IPONZ) is a business unit within the Ministry of Business, Innovation and Employment (MBIE). IPONZ has reviewed the cost recovery fees it charges for trade mark, patent, and design services, finding that:
 - 2.1 trade mark and patent revenue levels should be rebalanced to prevent cross-subsidisation between these regimes;
 - 2.2 the current surplus in the IPONZ memorandum account can be reduced steadily by rebalancing trade mark and patent revenue and by increasing overall IPONZ revenue slightly;
 - 2.3 the patent fee structure should be refined to better reflect the true cost of certain patent services;
 - 2.4 changes to the trade mark fee structure could improve the efficiency and effectiveness of the trade mark system.
- 3 As a result of the review, IPONZ developed a suite of proposed changes to trade mark and patent fees. In June 2018, Cabinet approved the release of a discussion document seeking feedback on these proposed fee changes [DEV-18-MIN-0109 refers]. Consultation on the fee change proposals took place between 25 June and 30 July 2018.
- 4 I have considered the comments raised during consultation, and seek your approval of the following fee change proposals:
 - 4.1 increased patent renewal and application maintenance fees;
 - 4.2 increased and new fees for high-cost patent services;
 - 4.3 decreased trade mark application and renewal fees, and new trade mark application fee options;
 - 4.4 simplified options for pre-application trade mark advice.

- 5 The proposals take into consideration submitters' comments by including two revisions to the options consulted on:
- 5.1 withdrawing the proposed increases to renewal fees under the Patents Act 1953;
 - 5.2 adjusting the design of the new excess claims fee by reducing the number of claims covered by the fee and the fee level.
- 6 I seek your approval to issue drafting instructions to the Parliamentary Counsel Office to give effect to the proposals in this paper. The proposals will require amendments to the Trade Marks Regulations 2003, the Patents Regulations 2014 and the Patents Regulations 1954.
- 7 As part of the fees review IPONZ has also updated its budget and expenditure forecasting. I seek your approval of an increase in the appropriation *Registration and Granting of Intellectual Property Rights* to provide for this expenditure.
- 8 The Treasury was consulted on the proposals in this paper. The Department of the Prime Minister and Cabinet and the Parliamentary Counsel Office were informed.
- 9 If Cabinet agrees to the proposals in this paper, I propose that MBIE and IPONZ publish the paper, the resulting Cabinet minute and the attached Summary of Submissions on their websites in March 2019, with any necessary redactions. I will seek final approval of amended regulations from the Cabinet Legislation Committee in the first half of 2019.

Background

- 10 IPONZ is a business unit within MBIE. IPONZ administers intellectual property rights under the the Patents Act 2013, the Trade Marks Act 2002, the Designs Act 1953, the Plant Variety Rights Act 1987, and the Geographical Indications (Wine and Spirits) Registration Act 2006.
- 11 The services IPONZ provides for trade marks, patents, and designs are fully cost recovered. This means that the costs of these services are recovered from third parties who directly benefit from holding intellectual property (IP) rights.
- 12 The revenue from cost recovery fees varies from year to year. To smooth out these variations and avoid the need for frequent fee adjustments, IPONZ operates a memorandum account. The memorandum account allows for surpluses to be retained by IPONZ to meet any future deficits incurred in providing its statutory functions. However, memorandum accounts are not intended to develop 'structural' surpluses over a number of years, and are expected to trend towards zero over a reasonable period of time.

The Intellectual Property Fees Review

- 13 IPONZ has reviewed the fees it charges for trade mark, patent, and design services. The purpose of this review was to support a more consistent and transparent approach to cost-recovery across the range of services that IPONZ provides. The review was also intended to assess whether fee changes are needed to address a \$27.5 million surplus that had accrued in the IPONZ memorandum account. This surplus was largely due to higher than expected trade mark application volumes since 2012.
- 14 The key findings of the review were that:

- 14.1 Trade mark and patent revenue levels should be rebalanced to prevent cross-subsidisation between these regimes. Continuing under the status quo would mean that users of trade mark services would be paying some of the cost of patent services, to the extent of millions of dollars. To restore proportionality between revenue and expenses a significant increase in overall patent revenue (approximately 80%) and a significant decrease in overall trade mark revenue (approximately 40%) are required.
- 14.2 The memorandum account balance is projected to reduce relatively quickly under current fees due to increasing cost pressures, with some risk of falling into deficit by June 2024. A steady reduction in the memorandum account surplus can be ensured by rebalancing trade mark and patent revenue and by increasing overall IPONZ revenue slightly.
- 14.3 The patent fee structure should be refined to better reflect the true cost of certain patent services.
- 14.4 Changes to the trade mark fee structure could improve the efficiency and effectiveness of the trade mark system.
- 15 For further detail on these findings, including graphs showing projections for cross-subsidisation and the IPONZ memorandum account balance, refer to pages 6-7 of the attached Cost Recovery Impact Statement (CRIS).
- 16 As a result of the review, IPONZ developed a suite of proposed changes to trade mark and patent fees. In June 2018, Cabinet approved the release of a discussion document seeking feedback on these proposed fee changes [DEV-18-MIN-0109 refers]. Consultation on the fee change proposals took place between 25 June and 30 July 2018.
- 17 All fees referred to in this paper are GST exclusive.

Comment

- 18 I have considered the comments raised during consultation, and seek your approval of the following fee change proposals:
- 18.1 Proposal 1 – increased patent renewal and application maintenance fees. This proposal has been revised since consultation.
- 18.2 Proposal 2 – increased and new fees for high-cost patent services. This proposal has been revised since consultation.
- 18.3 Proposal 3 – decreased trade mark application and renewal fees, and new trade mark application fee options. This proposal is the preferred option put forward during consultation.
- 18.4 Proposal 4 – simplified options for pre-application trade mark advice. This proposal is the preferred option put forward during consultation.
- 19 Below I outline the rationale for these proposals and any revisions to the proposals, including a high-level summary of comments from submitters on each proposal. A full Summary of Submissions is attached to this paper, including MBIE's responses to submitters' comments (Attachment 1).

- 20 Also attached is a Cost Recovery Impact Statement (Attachment 2), outlining:
- 20.1 the cost recovery principles and objectives for the fees review (pages 4-5);
 - 20.2 detailed analysis of the impacts of the proposals, including the projected impact on the IPONZ memorandum account balance under a range of scenarios;
 - 20.3 detailed breakdown of the costs recovered by each proposed fee (Annex One);
 - 20.4 a summary of current fees, including a description of the services covered by each fee (Annex Two).

Proposal 1 – increased patent renewal and application maintenance fees

Intent of Proposal 1

- 21 The patent fee structure includes fees for the maintenance of patent applications and for renewal of patents that are in force. The discussion document proposed increasing these fees significantly to:
- 21.1 recover a share of the increasing costs of providing patent services;
 - 21.2 provide a stronger incentive for holders of unused patents to allow them to lapse;
 - 21.3 provide a stronger incentive for applicants who are unlikely to commercially exploit their invention to abandon their application.
- 22 This proposal increased both the annual renewal and application maintenance fees charged under the Patents Act 2013 (charged annually from four years after the filing of the patent application) and the periodic renewal fees charged under the Patents Act 1953 (which are still in force for patent applications filed before the 2013 Act came into effect).
- 23 While volumes of periodic renewals under the Patents Act 1953 are relatively low, I have been advised that the ongoing filing of divisional applications¹ under the 1953 Act is inhibiting innovation. In this context, the proposal to increase renewal fees under the Patents Act 1953 was intended to ensure that applicants under the Patents Act 1953 are subject to the same costs as applicants under the Patents Act 2013.

Submissions on Proposal 1

- 24 Most submitters supported the overall proposal of increasing maintenance fees and renewal fees under the Patents Act 2013 and Patents Act 1953. Several submitters suggested more moderate increases to renewal fees, on the basis that the proposed fee increases could discourage New Zealand businesses from obtaining patent protection.

¹ Applicants with pending applications under the Patents Act 1953 can 'divide' their existing application into one or more separate applications, with priority rights and other dates being kept from the original filing date. These applications are referred to as 'divisional applications', and are charged the standard 1953 fee for filing of a complete specification (\$250). Divisional applications can be filed up to 20 years after the filing of the original application (referred to as the 'parent application').

25 One submitter (Henry Hughes IP) suggested that the proposed increases to renewal fees under the Patents Act 1953 could have unintended consequences, and suggested that the transitional provisions of the Patents Act 2013 should be amended instead.

Revisions to Proposal 1

26 I have revised Proposal 1 by withdrawing the proposed increases to renewal fees under the Patents Act 1953. I consider that amendments to the transitional provisions of the Patents Act 2013 would be a more effective way to address the issues identified with divisional applications under the Patents Act 1953. My officials are scoping this work for inclusion in a proposed IP Omnibus Bill. Table 1 below shows the fee changes under Proposal 1, now that the increases to renewal fees under the Patents Act 1953 have been withdrawn.

| Table 1: Revised fee changes under Proposal 1 | | | |
|--|--------------------|----------------------------------|---------------------|
| Services under Patents Act 2013 | Current fee | Estimated cost (per unit) | Proposed fee |
| Application maintenance fee if paid within 3 months | \$100 | \$95 | \$200 |
| Application maintenance fee if paid within 9 months | \$150 | \$95 | \$300 |
| Annual renewal fee (4th – 9th year) | \$100 | \$95 | \$200 |
| Annual renewal fee (10th – 14th year) | \$200 | \$95 | \$450 |
| Annual renewal fee (15th – 19th year) | \$350 | \$95 | \$1000 |
| Late payment penalty | \$50 | \$95 | \$100 |

Renewal and maintenance fees set above estimated cost per unit

27 All of the fees under Proposal 1 are set significantly above the estimated cost per unit, with the exception of the late payment penalty. Over-recovery of costs is only allowed in certain cases. Fees have historically been of interest to the Regulations Review Committee, and there are limited grounds for the Committee to draw these regulations to the attention of the House of Representatives under Standing Order (SO) 319 as a result of the over-recovery and what might appear as unexpected use of the power (SO 319(2)(c)). The significance of the fee increases could also attract the attention of the Committee (e.g. the annual fee for renewal from the 15th to 19th year of a patent will increase from \$350 to \$1000). However, I consider that the over-recovery and fee increases are acceptable and justified for the reasons set out below.

28 Section 243(2) of the Patents Act 2013 provides that the structure of the fee system under the Act may be such that the renewal and maintenance fees—

- (a) recover a share of the costs incurred by the Commissioner in performing his or her functions under the Act or the Patents Act 1953; and
- (b) recover those costs at a level that provides an appropriate incentive (having regard to the purpose of the Act set out in section 3(a)) for applicants to let patent applications become void or abandoned and patentees to let patents lapse if they do not receive, or will not receive, sufficient benefit from having the patent.

- 29 One of the purposes of the Patents Act 2013 as set out in section 3(a)(i) is to “provide an efficient and effective patent system that promotes innovation and economic growth while providing appropriate balance between the interests of inventors and patent owners and the interests of society as a whole”.
- 30 Setting renewal and maintenance fees at a level that provides an appropriate incentive in accordance with 243(2) contributes to the efficiency and effectiveness of the patent system by making it more likely that the monopoly right accorded by a patent is only maintained by those who intend to bring their invention to market, which in turn allows consumers and society to benefit from the invention.
- 31 What constitutes an appropriate incentive for this purpose depends on the age of the patent.
- 31.1 Patents are less likely to be producing significant economic benefits early in their lifespan, because there is likely to be uncertainty about the commercial value of a patent and the process of commercialising an application can be lengthy in many cases. Accordingly, application maintenance fees and renewal fees for the 4th to 9th year of a patent are set at \$200 to provide only a weak incentive. This is a moderate increase on the current fees (\$100) in light of the overall 80% increase in patents revenue that is required in order to avoid cross-subsidisation between trade mark services and patent services.
- 31.2 Patents that have been held for 15 to 19 years are far more likely to be producing significant economic benefits for the holder. Accordingly, the renewal fee for the 15th to 19th year of a patent is set at \$1000 to provide a far stronger incentive. This fee is intended to be a relatively minor annual expense for a patent holder that has successfully commercialised an invention, but a considerable expense for a patent holder that has been unable or unwilling to do so. This is a significant increase on the current fee (\$350) because the current fee structure only provides for a minor increase in renewal fees as a patent increases in age. Economic research indicates that renewal fees that increase more than proportionally with patent age help to ensure only valuable patents are held in force, reduce economic rents, and limit the risk of patents being resurrected and reinterpreted to cover technology that was not originally contemplated.²
- 31.3 The fee for the 10th to 14th year of a patent is set between the two fees above (\$450) to strengthen the incentive to allow a patent to lapse but avoid imposing unreasonable costs on patent holders that are still in the process of commercialising their invention.
- 32 In light of these factors, I consider that the proposed fee levels in Table 1 above recover a share of the overall costs of the patent system and provide appropriate incentives in terms of section 243(2) of the Patents Act 2013.
- 33 As a result of these fee increases, renewal and maintenance fees will recover a significant portion of the overall costs of the patent system (approximately 55%). Other patent fees must be set below cost to avoid overall over-recovery of costs and ensure a steady reduction in the memorandum account. Decisions as to what fees to set below cost have been made based on the policy objectives of the patent system. For example,

² Productivity Commission (Australia) 2016, *Intellectual Property Arrangements*, Inquiry Report No. 78, Canberra.

examination fees are set significantly below the estimated cost per unit, which helps promote innovation by making patent protection affordable for cost-sensitive applicants such as small to medium enterprises and independent researchers.

Proposal 2 – increased and new fees for high cost patent services

Intent of Proposal 2

- 34 The discussion document proposed increasing fees and introducing new fees for certain patent services (see Table 2 below). This proposal is intended to better reflect the high overall costs of these services, and variations in the cost of individual requests.
- 35 For example, current examination fees (\$500) are set far below the average estimated cost per unit (\$3212). While keeping examination fees low helps promote innovation, this should be balanced against the need to recover the overall costs of the patent system. Also, the current flat fee does not reflect variation in the scale and complexity of patent applications, which affects examination costs. The discussion document proposed increasing the standard examination fee to \$750 and introducing a new fee that would apply to complex patent applications (based on the number of claims included in the patent application).³

Submissions on Proposal 2

- 36 Submissions on Proposal 2 were mixed. One submitter (Fisher & Paykel) supported Proposal 2 fully and considered that these fee increases would have a relatively minor impact on overall costs to patentees. The other two submitters who commented directly on Proposal 2 supported it to some degree, but suggested more moderate fee increases and raised concerns about some specific fee changes under the proposal.

Revisions to Proposal 2

- 37 I have revised Proposal 2 by adjusting the design of the new excess claims fee. I propose reducing the number of claims covered by the fee (from 10 claims to 5 claims) and the fee level (from \$200 to \$120). This change is in response to a submitter's comment that applications with 30 claims should not be subject to the same fee as applications with 39 claims.
- 38 Table 2 shows the recommended fee changes under the revised Proposal 2, with new fees marked in italics:

| Services under Patents Act 2013 | Current fee | Estimated cost (per unit) | Proposed fee |
|-----------------------------------|-------------|---------------------------|--------------|
| Request for examination | 500 | \$3212 | 750 |
| Request for examination under PCT | | \$2604 | |
| Re-examination | | \$2300 | |

³ Patent specifications include 'claims' that state the scope of the patented invention. IPONZ's analysis indicates that patents that have high numbers of claims are more time-consuming to examine, on average.

| | | | |
|--|--------------------|----------------------------------|--|
| <i>Excess claims fee for examination of patent with 30 claims or more (per 5 claims)</i> | <i>No fee</i> | <i>\$171</i> | <i>\$120 (previous proposal was \$200 per 10 claims)</i> |
| Amendment after acceptance | \$150 | \$1168 | \$500 |
| Request for restoration | \$100 | \$2153 | \$600 |
| Services under Patents Act 1953 | Current fee | Estimated cost (per unit) | Proposed fee |
| Filing of complete specification | \$250 | \$1920 | \$500 |
| <i>Amendment before acceptance⁴</i> | \$60 | \$253 | \$150 |
| <i>Amendment after acceptance⁴</i> | | \$1168 | \$500 |

Implementation of excess claims fee

- 39 The implementation of the excess claims fee has been designed to be as administratively simple as possible and to avoid creating loopholes that allow fee payers to circumvent the fee.
- 39.1 The fee will be calculated based on the maximum number of claims that the patent has contained during the examination process, taking into account any amendments before acceptance. For example, if a patent contained 28 claims at first examination, was then amended to contain 35 claims, and was accepted with 32 claims, then the patent would be treated as having 35 claims for the purposes of determining the excess claims fees that are payable.
- 39.2 The fee will be charged after the patent has been accepted, and will need to be paid before the patent is granted. This timing will ensure that the number of claims in the patent is clear, and that patent applicants have a strong incentive to pay the fee.
- 39.3 The fee will not be payable if the patent is not accepted or granted. The administrative costs of seeking unpaid excess claims fees from applicants who abandon their applications are likely to outweigh the benefits.
- 39.4 It will be possible for fee payers to avoid excess claims fees by the addition of claims through amendments after acceptance. However, IPONZ expects that the fee level for amendments after acceptance (\$500), and the professional fees and legal risk involved in seeking such amendments, to be sufficient to deter this behaviour.

Proposal 3 – decreasing trade mark fees, and new trade mark application fee options

Intent of Proposal 3

- 40 The discussion document proposed reducing the existing fees for trade mark applications and renewals, and introducing two new trade mark application fee options which would be an alternative to the current application fee. This proposal is intended to

⁴ This is a change to the current fee structure in the Patents Regulations 1954. The current Patent Regulations 1954 include a single fee for amendment, before or after acceptance.

better reflect the costs of processing trade mark applications and improve the efficiency and effectiveness of the trade mark system.

- 41 This proposal includes introducing a reduced fee for trade mark applications that use the classification picklist, and introducing a reduced fee for trade mark applications based on pre-application advice with no amendments and filed within 3 months of issue of the pre-application advice report. Both of these reduced fees are intended to incentivise applicants to submit trade mark applications which can be more efficiently examined, and have reduced costs associated with them.
- 42 An application based on pre-application advice and using the picklist of pre-approved classification terms will pay the lower of the two fees, therefore, \$50 in Table 3 below.

Submissions on Proposal 3

- 43 Three submitters supported the proposal, and two submitters were concerned that the proposed reduced fees could encourage the use of the classification picklist and pre-application advice. In their view, this could disadvantage applicants who seek legal advice.

Rationale for progressing Proposal 3 unchanged

- 44 I recommend that we progress this proposal. Reduced fees for pre-application advice services are offered in other jurisdictions, and benefit small to medium enterprises. Further, the terms in the classification picklist are accepted globally and align with international standards. The proposed fees under Proposal 3 are set out in table 3 below:

| Table 3: Revised fee changes under Proposal 3 | | | |
|--|--------------------|----------------------------------|---------------------|
| Services under Trade Marks Act 2002 | Current fee | Estimated cost (per unit) | Proposed fee |
| Application to register a trade mark – standard (per class) | \$150 | \$174 | \$100 |
| Application to register a trade mark – based on pre-application advice (per class) | | \$86 | \$50 |
| Application to register a trade mark – using picklist of pre-approved classification terms (per class) | | \$133 | \$70 |
| Renewal of registration of a trade mark (per class, every 10 years) | \$350 | \$52 | \$200 |

- 45 All of the proposed fees under Proposal 3 are set below the estimated cost per unit, with the exception of the proposed renewal fee. Similar to the Patents Act 2013, section 199(2) of the Trade Marks Act 2002 allows for renewal fees to be set at a level that recovers a share of the overall costs of the trade mark system and that incentivises trade mark holders to let their registrations lapse. I consider that the proposed reduction of the renewal fee from \$350 to \$200 continues to provide an appropriate incentive for this purpose, and recovers a share of the overall costs of the trade mark system that supports the purposes of the Trade Marks Act 2002.

Proposal 4 – simplified options for pre-application trade mark advice

Intent of Proposal 4

- 46 The discussion document proposed simplifying the options available to applicants for pre-application advice, by bundling the currently separate search advice and preliminary advice into a single bundled service. Under the proposal, IPONZ will provide three options to applicants:
- 46.1 Search advice;
 - 46.2 Preliminary advice; and
 - 46.3 Search and Preliminary advice.
- 47 In operation, if either search advice or preliminary advice is chosen by an applicant, then preliminary advice and search advice (respectively) will be provided free of charge. This is designed to encourage applicants to apply for the third option – search and preliminary advice.
- 48 Bundling the pre-application advice services avoids unsuccessful applications that are based on only a search report or preliminary advice report, and makes applications easier and faster to examine.

Submissions on Proposal 4

- 49 Two submitters made a submission on this proposal, and both were in support. Submitters noted the usefulness of pre-application advice to self-filing applicants, who may have a limited understanding of the requirements for the registration of a trade mark.

Rationale for progressing Proposal 4 unchanged

- 50 Based on this feedback, and the efficiency benefits of bundling the pre-application service, I recommend that we progress this proposal unchanged. Table 4 below shows the fee changes required to implement Proposal 4:

| Table 4: Revised fee changes under Proposal 4 | | | |
|---|--------------------|----------------------------------|---------------------|
| Services under Trade Marks Act 2002 | Current fee | Estimated cost (per unit) | Proposed fee |
| Request for search advice (per class, preliminary advice provided free of charge) | \$40 | \$120 | \$50 |
| Request for preliminary advice (per class, search advice provided free of charge) | \$40 | \$120 | \$50 |
| Request for search and preliminary advice (per class) | - | \$120 | \$50 |

Overall impact of proposals

- 51 As a whole, IPONZ expects the proposed fee changes to:
 - 51.1 Increase the complexity of the patent fee structure and the trade mark structure overall, while making fees more effective, efficient and equitable;
 - 51.2 Rebalance trade mark and patent revenue and ensure a steady reduction in the memorandum account;
 - 51.3 Increase costs for patent applicants and patent holders without significant adverse effects on innovative activity;
 - 51.4 Reduce costs for trade mark applicants and trade mark holders.
- 52 These impacts are outlined in further detail in the CRIS (pages 12-14, Attachment 1).

Implementation, monitoring and evaluation

- 53 If agreed, the fee changes will be implemented in the third quarter of 2019. I intend to notify fee payers of the confirmed fee changes in March 2019 (see paragraph 66 below). This will allow fee payers ample time to adjust to the amended and new fees.
- 54 IPONZ will evaluate the efficiency and effectiveness of the fee changes by:
 - 54.1 identifying benchmarks and indicators that correspond to the objectives and policy intent of the fee changes, and
 - 54.2 proactively monitoring these benchmarks and indicators on an ongoing basis.
- 55 If the fee changes appear to be meeting their intended objectives, IPONZ will review its fees again in five years' time (FY2023/24). IPONZ will review fees earlier (e.g. in three years' time) if monitoring indicates that the fees are not meeting their objectives, or that the changes have had unintended consequences.
- 56 Further detail on plans for implementation, monitoring and evaluation are included at page 17 of the attached CRIS (Attachment 2).

Free and frank opinions

57 [Redacted text block]

58 [Redacted text block]

Consultation

59 The Treasury was consulted on the proposals in this paper. The Department of the Prime Minister and Cabinet and the Parliamentary Counsel Office were informed.

Financial Implications

60 Financial sensitivity [Redacted]

61 [Redacted]

[Redacted]

[Redacted]

Human Rights, Gender Implications and Disability Perspective

62 There are no human rights, gender or disability implications resulting from the proposals set out in this paper.

Legislative Implications

63 I seek your approval to issue drafting instructions to the Parliamentary Counsel Office to give effect to the proposals in this paper. The proposals will require amendments to:

- 63.1 Trade Marks Regulations 2003;

63.2 Patents Regulations 2014;

63.3 Patents Regulations 1954.

64 I will seek final approval of amended regulations from the Cabinet Legislation Committee in the first half of 2019.

Regulatory Impact Analysis

65 MBIE has prepared a full CRIS assessing the regulatory impact of the proposals in this paper (Appendix 2), which was reviewed by MBIE's Regulatory Impact Analysis Review Panel. The Panel considers that the information and analysis summarised in the CRIS meets the criteria necessary for Ministers to make informed decisions on the proposals in this paper.

Publicity

66 If Cabinet agrees to the proposals in this paper, I propose that MBIE and IPONZ publish the paper, the resulting Cabinet minute and the Summary of Submissions on their websites in March 2019, with any necessary redactions. Stakeholders who submitted on the discussion document would be directly informed of the publication of the Cabinet paper.

Recommendations

The Minister of Commerce and Consumer Affairs recommends that the Committee:

- 1 **note** that on 13 June 2018 Cabinet agreed to public consultation on proposals to amend trade mark and patent fees, which took place between 25 June and 30 July 2018 [DEV-18-MIN-0109 refers];
- 2 **note** that the Minister of Commerce and Consumer Affairs has considered the comments raised during consultation, and proposes the following changes to the original proposals:
 - 2.1 withdrawing the proposed increases to renewal fees under the Patents Act 1953;
 - 2.2 adjusting the design of the new excess claims fee by reducing the number of claims covered by the fee and the fee level;

Changes to patent fees

- 3 **agree** to the following increases to patent renewal fees and application maintenance fees under the Patent Regulations 2014 to raise overall patent revenue, and provide stronger incentives for patentees to let patents lapse and for applicants to let patent applications become void:

| Service | Proposed fee (GST Exclusive) |
|---|------------------------------|
| Maintenance fee due on the 4 th and each subsequent anniversary of the filing date of the complete specification | \$200 |
| Maintenance fee due on the 4 th and each subsequent anniversary of the filing date of the complete specification if paid up to 6 months late | \$300 |

| | |
|--|--------|
| Renewal fee due on the 4 th to 9 th anniversary of the filing date of the complete specification | \$200 |
| Renewal fee due on the 10 th to 14 th anniversary of the filing date of the complete specification | \$450 |
| Renewal fee due on the 15 th to 19 th anniversary of the filing date of the complete specification | \$1000 |
| Penalty payable for request to extend the period for payment of a renewal fee | \$100 |

- 4 **agree** to increase the following fees under the Patent Regulations 2014 (PR 2014) and the Patent Regulations 1954 (PR 1954) to better reflect the costs of offering patent services:

| Service | Regulations | Proposed fee (GST Exclusive) |
|---|-------------|------------------------------|
| Request for examination or re-examination (including examination of applications under the Patent Cooperation Treaty) | PR 2014 | \$750 |
| Request for leave to amend complete specification after acceptance | PR 2014 | \$500 |
| Request for restoration of patent or patent application | PR 2014 | \$600 |
| On filing complete specification (including divisional applications) | PR 1954 | \$500 |

- 5 **agree** to introduce the following new fees under the Patent Regulations 2014 and the Patent Regulations 1954 to better reflect variations in the cost of patent services:

| Service | Regulations | Proposed fee (GST Exclusive) |
|--|-------------|------------------------------|
| Additional fee for examination of patent with 30 claims or more (per 5 claims) | PR 2014 | \$120 |
| Application to amend complete specification before acceptance | PR 1954 | \$150 |
| Application to amend complete specification after acceptance | PR 1954 | \$500 |

Changes to trade mark fees

- 6 **agree** to decrease the following fees under the Trade Marks Regulations 2003 to reduce overall trade mark revenue:

| Service | Proposed fee (GST Exclusive) |
|---|------------------------------|
| Application to register a trade mark - per class | \$100 |
| Renewal of registration of a trade mark - per class | \$200 |

- 7 **agree** to introduce the following new application fees under the Trade Marks Regulations 2003 to reduce overall trade mark revenue and improve the efficiency and effectiveness of the trade mark system:

| Service | Proposed fee (GST Exclusive) |
|---|------------------------------|
| Application to register a trade mark based on pre-application advice with no amendments and filed within 3 months of issue of the pre-application advice report – per class | \$50 |
| Application to register a trade mark using picklist of pre-approved classification terms – per class | \$70 |

- 8 **agree** that if an application is based on pre-application advice and using the picklist of pre-approved classification terms, the lower of the two fees applies, ie \$50;

- 9 **agree** to introduce 'request for search and preliminary advice' as a new pre-application advice option under the Trade Marks Regulations 2003, and increase the fee for search advice and for preliminary advice to improve the efficiency and effectiveness of the trade mark system:

| Service | Proposed fee (GST Exclusive) |
|---|------------------------------|
| Request for search and preliminary advice per class | \$50 |
| Request for search advice per class (preliminary advice offered free of charge) | \$50 |
| Request for preliminary advice per class (search advice offered free of charge) | \$50 |

Drafting of regulations

- 10 **authorise** the Minister of Commerce and Consumer Affairs to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above recommendations;

- 11 **authorise** the Minister of Commerce and Consumer Affairs to make minor and technical changes, consistent with the Cabinet decisions in recommendations 3-9 above, on any related issues that arise during the drafting process, including transitional arrangements for implementation of the proposed fees;

Financial sensitivity

12

[Redacted]

13

[Redacted]

14

[Redacted]

Next steps

15 **agree** to MBIE publishing this paper, the resulting Cabinet Minute and the attached Summary of Submissions on the MBIE and IPONZ websites in March 2019;

16 **note** that the Minister of Commerce and Consumer Affairs will seek final approval of amended regulations from the Cabinet Legislation Committee in the first half of 2019.

Authorised for lodgement

Hon Kris Faafoi

Minister of Commerce and Consumer Affairs

Attachment 1: Summary of Submissions

PROACTIVELY RELEASED



**NEW ZEALAND
INTELLECTUAL
PROPERTY OFFICE**

Intellectual Property Fees Review

Summary of Submissions

November 2018



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

New Zealand Government

The Intellectual Property Fees Review

IPONZ has carried out a review of the fees it charges for patent, trade mark, and design services. The review found that trade mark fees and patent fees need to change in order to reduce IPONZ's memorandum account balance, rebalance patent and trade mark revenues, and improve the efficiency of the patent and trade mark regimes. The proposed changes are set out in the discussion document [Intellectual Property Fees Review](#).

The purpose of this document

The purpose of this document is to give people interested in the Fees Review a short summary of the submissions which were received during public consultation, and IPONZ's responses to those submissions.

The proposed changes to IPONZ fees were released for public consultation on 25 June. Consultation closed on 30 July, and a total of seven submissions were received.

Submissions received

The submissions reflected a range of interests across the Intellectual Property (IP) sector, and included a mixture of additional fee change proposals and feedback on the impact of the proposed fee changes.

While few in number, the submissions reflected the interests of both IP applicants and IP attorneys.

- A submission was received from a trade mark applicant (ESKO), supporting the proposed changes to trade mark fees and proposing an additional fee change.
- A submission was received from a patent applicant (Fisher and Paykel), supporting the proposed changes to patent fees and proposing several additional fee changes.
- Submissions were received from four individual IP firms, with comments on both trade mark and patent proposals.
- A submission with comments on all of the proposals was received from The New Zealand Institute of Patent Attorneys (NZIPA) which represents most trade mark and patent attorneys registered and practising in New Zealand.

Comments received on the fee review findings (Part A)

| Submission comments | Submitters | IPONZ comment |
|---|-----------------|---|
| <p>Supports IPONZ’s finding that ongoing filing of divisional applications under the Patents Act 1953 inhibits innovation.</p> <p>Provides further evidence of the costs of divisional applications, suggesting that these applications are more likely to be opposed than applications under the Patents Act 2013.</p> | Fisher & Paykel | <p>IPONZ appreciates the additional evidence provided about the costs incurred by divisional applications. However it would not be equitable or feasible to increase application fees under the Patents Act 1953 on the basis that these applications are more likely to be opposed.</p> |
| <p>Suggests that innovation is declining in New Zealand, and noted that NZ-origin patent applications have declined compared to GDP since 2013.</p> | Henry Hughes IP | <p>IPONZ acknowledges that the number of NZ-origin patent applications have been declining. This trend started in 2011 and it is highly unlikely that the fee increases made during implementation of the Patents Act 2013 are causing the decline, as IPONZ fees usually represent a small fraction of the overall cost of developing and patenting an invention. If the Patents Act 2013 has been a factor in the decline, then this is more likely attributable to a stated objective of the Patents Act 2013, which was to raise the standard of patents granted in New Zealand to align the criteria with international practice. This was to avoid the situation under the old Patents Act 1953 where the low threshold for patentability could lead to “broader patent rights being granted in New Zealand than in other countries, which can disadvantage New Zealand Businesses and consumers... This can disadvantage innovation and growth in productivity of exports”. It would follow that lifting the standards for patentability may reduce the number of local inventions patented in the short to medium term.</p> <p>On the other hand, the number of patent applications filed by New Zealand applicants in other countries shows a steady increase, which might suggest that innovation in NZ has not declined after all.</p> |

| | | |
|--|-------|--|
| <p>Expresses disappointment that IPONZ has “no plans for increased expenditure to improve patent services, beyond a significant increase in patents personnel”.</p> <p>Suggests that increases in patents personnel may not be required.</p> | NZIPA | <p>IPONZ has budgeted expenditure to improve patent services aside from staffing increases, such as improving the availability of patent data and patent publications. IPONZ will also explore other options for improving the efficiency and effectiveness of patent services, such as those suggested.</p> <p>IPONZ considers that the expenditure forecasts are fit for purpose overall, because:</p> <ul style="list-style-type: none"> • The forecast staffing increases are based on best available data on demand for services and workforce capacity • Any reduction in staffing needs as a result of improvements to IPONZ systems would be partially offset by the costs involved in implementing such improvements. |
| <p>Expresses disappointment that the Discussion Document does not include any plans to increase expenditure on recruiting and retaining senior trade mark examiners.</p> | NZIPA | <p>IPONZ’s modelling of revenue and expenses does provide for increased salary costs for senior trade mark examiners and other trade mark examiners.</p> |
| <p>Suggestion that instead of decreasing trade mark fees, IPONZ should increase expenditure on IP awareness at the secondary level.</p> | NZIPA | <p>IPONZ has already budgeted for increased expenditure on IP information and education, and there is no justification for further increases in expenditure at this stage.</p> |

Comments received on the fee change objectives and assessment criteria (Part B)

| Submitter comments | Submitter | IPONZ comment |
|---|-----------------|---|
| <p>The purposes set out in Section 3 of the Patents Act 2013 should be taken into account in assessing patent fee change options.</p> | Fisher & Paykel | <p>The purposes set out in Section 3 of the Patents Act 2013 were considered as part of the ‘Effectiveness’ criterion (paragraph 25 of the discussion document) when assessing patent fee change options.</p> |
| <p>Suggests that the quality of outcomes for</p> | Henry Hughes IP | <p>Quality of outcomes for applicants was considered as part of the ‘Effectiveness’</p> |

| | | |
|---|-------|---|
| <p>applicants and the perceived value of IP rights as criteria for assessing fee change proposals.</p> <p>Suggests that setting a fee level too low can result in the value and importance of an IP right being discounted or underappreciated.</p> | | <p>criterion when assessing fee change options.</p> <p>We have not observed any linkage between the price of IP services and the perceived value of IP rights. For example, trade mark fees are already relatively low, yet applicants still appear to appreciate the value of the protection offered by trade marks.</p> |
| <p>Suggests that analysis of patent fee changes should include consideration of the wider goals of the IP system, in particular promoting the development, protection and commercialisation of innovation by New Zealand firms.</p> | NZIPA | <p>The wider goals of the IP system were considered in assessment of patent fee change options, including those listed.</p> |

Comments received on overall fee change proposals and impact analysis (Part C)

| Submission comments | Submitters | IPONZ comment |
|---|-------------------------------------|--|
| <p>Suggests that trade mark fees be maintained at current levels and more moderate increases to patent fees.</p> | <p>NZIPA</p> <p>Henry Hughes IP</p> | <p>This proposal would lead to significant cross-subsidisation between patent services and trade mark services. This would be inequitable and inefficient for the reasons outlined at paragraphs 41 - 42 of the discussion document.</p> |
| <p>Suggests that the cost of running the Hearings Office be partially funded by patent, trade mark and design applicants and that, instead of decreasing trade mark fees, IPONZ should use the surplus trade mark revenue to adequately resource the Hearings Office.</p> | NZIPA | <p>IPONZ has budgeted for increased expenditure to improve the resourcing of the Hearings Office. The costs of running the Hearings Office are partially funded by fees for other patent, trade mark and design services. Trade mark proceedings make up the majority of the cases heard by the Hearings Office, so trade mark revenue already plays a significant role in funding the Office.</p> |
| <p>Questions IPONZ's view that increasing patent costs will have little effect on innovative activity.</p> | NZIPA | <p>IPONZ fees represent a small proportion of the total cost of developing an invention (such as research and development costs) and the process for gaining patent</p> |

| | | |
|---|--|--|
| <p>Questions IPONZ's view that decreasing trade mark costs could lead to a moderate increase in domestic trade mark applications.</p> | | <p>protection, which usually requires the services of a patent attorney. We expect domestic trade mark applicants to be more cost-sensitive than patent applicants because of the comparatively low cost threshold for developing and protecting a trade mark, and the higher proportion of self-filing trade mark applicants.</p> |
|---|--|--|

Comments received on Proposal 1: increased patent renewal and maintenance fees (Part D)

| Submission comments | Submitters | IPONZ comment |
|---|--|--|
| <p>Supports increases to annual renewal fees overall, based on increased incentive for lapse of unused patents.</p> | <p>Henry Hughes IP Fisher & Paykel</p> | <p>Noted.</p> |
| <p>Suggests more moderate increases to annual renewal fees, based on (1) New Zealand's smaller market size and lower salary/wage costs compared to jurisdictions with similar IP regimes and renewal fees; (2) a risk that increased renewal fees could discourage NZ businesses from filing patent applications.</p> | <p>NZIPA Henry Hughes IP</p> | <p>We consider that the proposed increases to renewal fees are appropriate taking into account NZ's market size and wage/salary costs. We note that the proposed renewal fees are lower overall than similar jurisdictions.</p> <p>We consider that the proposed increases to renewal fees are unlikely to discourage NZ business from protecting patents because they would still represent a small fraction of the total cost of commercialising and protecting an invention. Furthermore, unlike application and examination fees that are paid at the initial stages of the patenting process, renewal fees only become due at a later stage once applicants are more likely to have ascertained the commercial value of their invention. Applicants therefore generally only incur renewal fees if they consider their invention to be of significant commercial value. We do not therefore agree that increases to renewal fees would discourage NZ businesses from filing patent applications. In fact, the fee structure is designed to minimise the upfront fees while businesses are developing their invention and ascertaining its commercial value.</p> |
| <p>Suggests introducing differentiated renewal fees</p> | <p>Henry Hughes IP</p> | <p>This option is not preferred because it would (1) significantly increase the</p> |

| | | |
|--|----------------------|---|
| based on the size of the entity holding the patent. | Ensor and Associates | complexity of the patent fee structure; (2) provide incentives for patent holders to game the system (for example by setting up separate entities to hold IP rights); and (3) introduce significant uncertainty into IPONZ revenue levels (IPONZ has no historical data on the size of entities that hold patents). |
| <p>Considers that the proposed increases to renewal fees under Patents Act 1953 could incentivise applicants to file divisional applications rather than allow the patent to be granted.</p> <p>Suggests amending transitional provisions of Patents Act 2013 instead to introduce an application maintenance fee under the Patents Act 1953.</p> <p>Suggests introducing a new annual renewal fee under Patents Act 1953 for renewal of patent from 16 to 19 years.</p> | Henry Hughes IP | IPONZ has withdrawn the proposal to increase renewal fees under the Patents Act 1953. We consider that amendments to the transitional provisions of the Patents Act 2013 are likely to be required to address the ongoing filing of divisional applications under the Patents Act 1953 and their effect on the patent system. |
| Suggests making maintenance fees payable for applications under the Patents Act 1953. | Henry Hughes IP | This would require changes to the transitional provisions set out in the Patents Act 2013. Amendments to primary legislation are out of scope of the Intellectual Property Fees Review, but the suggestion will be considered in future work in this area. |
| Suggests increasing fee for late payment of maintenance and renewal fees to \$200. | Henry Hughes IP | We agree that increasing fees for late payment of maintenance and renewal fees could have minor efficiency benefits. However, we consider that the proposed increase from \$50 to \$100 provides an adequate incentive for applicants and patent holders to pay on time. |
| Suggests fee option for payment of multiple annual renewal fees as a lump sum in advance. | Ensor and Associates | Renewal fees are charged annually to encourage patent holders to regularly reassess whether their patent is still valuable and worth maintaining. Allowing for payment of multiple years as a lump sum would be inconsistent with this policy intention. |

Comments received on Proposal 2, Option 2A: increased fees for high-cost patent services (Part D)

| Submission comments | Submitters | IPONZ comment |
|---|--------------------------|--|
| Supports the proposed increased and new fees for high-cost patent services. | Fisher & Paykel | Noted. |
| Supports proposed fees for restoration under the Patents Act 2013 and for filing a complete specification under the Patents Act 1953. | Henry Hughes IP | Noted. |
| <p>Suggests leaving the examination fee under the Patents Act 2013 at the current level (\$500), and considers that increased fee could discourage some applicants.</p> <p>Suggests introducing a fee for grant of patents instead, set at \$200.</p> | Henry Hughes IP | We do not consider that the increased examination fee is likely to discourage applicants. We consider that a grant fee is not warranted because (1) there are no direct costs to IPONZ from grant of patents, as the process is automated; (2) recovering cost at grant of patents rather than at examination makes patent revenue less responsive to demand for patent services, because of the average delay between examination and grant; (3) only around 70% of patents that are examined end up being granted; and (4) there are equity benefits to recovering cost at examination rather than at grant. |
| <p>Considers that applicants do not deliberately wait until after acceptance to make amendments.</p> <p>Suggests a slight increase to the current fees for amendment after acceptance instead of the proposed increase to \$500.</p> | NZIPA Henry Hughes IP | The proposed fee increase is intended to better reflect the underlying costs of this service, rather than disincentivise amendments after acceptance. We consider that the proposed fee is appropriate and significantly less than the estimated cost per unit. |
| Considers that the proposed fee increases would have a relatively minor impact on overall costs to patentees. | Fisher & Paykel | Noted – this aligns with the impact analysis provided in the discussion document. |
| Does not support proposed fee for amendments before acceptance under the Patents Act 1953 | Henry Hughes IP | The proposed fee is based on recovering a greater portion of the underlying cost of the service, not incentivising certain applicant behaviours. Moreover, we do not |

| | | |
|---|--|--|
| because (unlike the Patents Act 2013) there is no opportunity to make voluntary amendments free of charge before examination. | | consider that leaving the fee for amendment before acceptance at \$60 would improve the efficiency of the patent system. |
|---|--|--|

Comments received on Proposal 2, Option 2B: New 'excess claims' fee (Part D)

| Submission comments | Submitters | IPONZ comment |
|---|------------------------------------|--|
| Supports Option 2B in general. | Fisher & Paykel Henry Hughes IP | Noted. |
| Suggests that excess claims fees should apply to applications under the Patents Act 1953. | Fisher & Paykel | In principle this proposal would improve the efficiency and equity of the patents system. However, the increased revenue from an excess claims fee under the Patents Act 1953 is unlikely to cover the costs of changing systems and processes to implement the new fee. This is because application volumes under the 1953 Act are very low compared to the Patents Act 2013. |
| Suggests introducing an 'excess page' fee similar to those charged by the European Patent Office and UK Intellectual Property Office. | Fisher & Paykel | IPONZ has considered this suggestion and considers that (1) variation in the time required to examine a patent application is more closely related to the number of claims than the number of pages in a specification; and (2) introducing an excess page fee would introduce further uncertainty into the forecasting of patent revenue because IPONZ has no existing data on pages per specification. However, we intend to start collecting this data so that we can assess this option more robustly during the next fees review. |
| Considers that the excess claims fee could benefit the IP system by limiting the number of claims filed, examined and granted. | Fisher & Paykel | Noted. |

| | | |
|---|-------|--|
| Suggests simplifying the excess claims fee by making it payable on each individual claim above a threshold of 30, and changing the fee level to \$20. | NZIPA | <p>IPONZ agrees that making the excess claims fee payable on each individual claim would more effectively incentivise lower claim numbers. However, NZIPA's proposal would lead to applicants owing IPONZ very small sums of money that would need to be paid before grant. We consider that an appropriate revision to the proposal would be to make it payable on every 5 claims above the threshold.</p> <p>We do not consider that raising the threshold to 30 would simplify the fee.</p> |
|---|-------|--|

Comments received on Proposal 3: new trade mark application fee options (Part D)

| Submission comments | Submitters | IPONZ comment |
|--|--|---|
| Supports the reduction in trade mark application and renewal fees. | Esko Safety TMJAM Limited Ensor & Associates | Noted. |
| Suggests extending the reduced trade mark application fee to applications that use the trade marks API. | TMJAM Limited | Applications that use the trade marks API will benefit from the classification picklist discount, as the picklist is required to be used in API applications. |
| Suggests that the reduced application and renewal fees do not take into account the value of the right, and therefore, devalues the trade mark. | NZIPA Henry Hughes | The value of a trade mark is not determined by the price charged by IPONZ, but from what the right owner decides to do with the mark. |
| Suggests that the proposed renewal fee would not provide an appropriate incentive for IP holders to allow their trade marks to lapse if they are no longer being used, and that this could lead to 'cluttering' of the trade mark register with unused | NZIPA Henry Hughes | While lowering the renewal fee could reduce the incentive to allow unused trade marks to lapse, we do not consider that this is likely to lead to problematic 'cluttering' of the register because (1) it is unlikely that trade mark holders would want to pay even a nominal amount to renew a trade mark that is not used; and (2) unused marks would be open for revocation on the basis of non-use actions if they |

| | | |
|---|-------------------------|---|
| marks. | | have not been used for a period of three years and are a hindrance to another trader's mark. |
| Expresses concern that an inexperienced applicant using the picklist will not obtain adequate protection for their trade mark or may over-claim relevant goods and services – as the approved list of terms will always lag behind product development. | NZIPA Henry Hughes | IPONZ does not see any evidence of the issue. While it is possible that self-filers may make mistakes, this can be addressed through education. IPONZ is aware of tools in the marketplace that helps applicants classify their goods and services. Further, the classification picklist terms aligns with WIPO classification schedule, which is accepted globally and aids in classification uniformity. |
| Expresses concern that the proposed discount for search and preliminary advice (S&PA) applications doesn't take into account market conditions such as unregistered trade marks. Considers that S&PA should not be encouraged at the expense of proper legal advice prior to filing. | NZIPA Henry Hughes | This discount is offered in other jurisdictions (e.g. Australia) and has a range of benefits for the efficiency and effectiveness of the trade mark system, as outlined in the discussion document. It is appropriate that S&PAs do not consider unregistered trade marks, because these are not considered in the full trade mark examination either. The intent of the discounted fee for applications based on an S&PA is to reflect the reduced cost of these applications. The discounted fee is not intended to encourage applicants to seek an S&PA instead of legal advice. |
| Suggests that there should be a base fee for application and renewal of a trade mark in a first class with a much smaller fee for the remaining classes. | PL Berry and Associates | This type of fee may result in undesirable applicant behaviour, such as applicants filing trade marks for more classes than they would actually use. |
| Suggests that there should be a discounted rate to renew a trade mark for 15 or 20 years. | Esko Safety | IPONZ considers that a renewal period of 10 years is appropriate and is mandated in the Singapore Treaty. A longer renewal period could lead to larger numbers of unused trade marks staying on the register. |

Comments received on Proposal 4: Simplified options for pre-application trade mark advice (Part D)

| Submission comments | Submitters | IPONZ comment |
|---|-----------------------|---------------|
| Supports the bundling of search advice and preliminary advice into a single service, as the pre-application advice service is overwhelmingly used by self-filing applicants, who are likely to have limited understanding of the requirements for registration of a trade mark. | NZIPA Henry Hughes | Noted. |

Comments received on plans for implementation, monitoring and evaluation (Part E)

| Submission comments | Submitters | IPONZ comment |
|--|--------------|--|
| Expresses concern that proposed implementation of renewal fees under Patents Act 1953 would be inequitable, in that the increased renewal fees would apply to applicants who filed their application up to 18 months prior to the new fees coming into effect. | Henry Hughes | IPONZ has withdrawn the proposal to increase renewal fees under the Patents Act 1953. |
| Suggests that a period of 3 months be provided between the commencement date and notification of the amendment regulations in the New Zealand Gazette. | NZIPA | IPONZ accepts the need for a period where actors in the IP system can prepare to comply with the new fees. To enable this we are publicly announcing the fee changes when they have been confirmed by Cabinet, which will be at least 3 months before the fee changes commence. Further, there will be at least 28 days between the regulations being made and commencing. |
| Suggestion that IPONZ should monitor and evaluate the impacts of more modest increases in | NZIPA | While IPONZ intends to review the proposed fees in 4-5 years' time, if certain circumstances were to apply, IPONZ may carry out a fees review earlier than the 4-5 |

| | | |
|---|--|--|
| patents fees sooner than the proposed review in 4-5 years' time to assess, for example, the impact on the memorandum account balance. | | year timeframe. For example, this may be required due to adverse economic conditions impacting patent and trade application volumes that reduce IPONZ's revenue, or major fluctuations in the memorandum account balance, which result in a large forecast deficit or surplus. |
|---|--|--|

Other comments received (not directly related to consultation questions)

| Submission comments | Submitters | IPONZ comment |
|---|--------------------|--|
| Suggests that the government develop an IP Strategy for New Zealand. | NZIPA | The concept of an IP Strategy for New Zealand will be discussed within the framework of the ongoing meetings between NZIPA, IPONZ and Business Law Policy. |
| Suggestion to close down part or all of IPONZ and outsource patent examination work to IP Australia, or operate under a singular 'Trans-Tasman Patent' regime | Ensor & Associates | New Zealand is a separate jurisdiction with its own unique market conditions. New Zealand's national interests are therefore best served by maintaining sovereignty over its patent regime. If the submitter's suggestion is directed to achieving examination efficiencies, this is more suitably sought through work sharing regimes such as the Global Patent Prosecution Highway (GPPH) in which both New Zealand and Australia are already members. |
| Suggests accepting incoming patents without examination if accompanied by an acceptable examination from a reputable organisation | Ensor & Associates | As noted above, New Zealand is already participating in work sharing arrangements with other International Offices under the GPPH, which goes some way to addressing this submission. However, for the reasons above, New Zealand does not intend to completely cede its ability to examine patent applications according to local requirements. |
| Suggests not examining patents until a dispute arises in which patent validity is called into question. | Ensor & Associates | This is considered highly undesirable because it leaves market participants in uncertainty as to the validity of a patent unless they go to the significant expense and delay of initiating formal proceedings. This is likely to discourage investment in local innovative activity. This would also result in increased costs to participants and |

| | | |
|---|--------------------|---|
| | | IPONZ, due to the likely increase in the number of disputes. |
| Suggests expediting the patent examination process through telephone interviews or videoconferencing. | Ensor & Associates | Patent examiners already discuss examination issues with applicants over the phone. However, there may be some scope to extend this further. |
| Suggests charging a higher application fee for 'famous trade marks'. | Ensor & Associates | This option would significantly increase the complexity of the trade marks fee structure and add additional examination procedures to assess whether a trade mark is 'famous' or unduly similar to a 'famous trade mark'. |

PROACTIVELY RELEASED

PROACTIVELY RELEASED

Stage 2 Cost Recovery Impact Statement

Regulations to adjust Patent and Trade Mark fees, November 2018

Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of options to change the fees for patent and trade mark services provided by the Intellectual Property Office of New Zealand (IPONZ) under the Patent Regulations 1954, the Patent Regulations 2014, and the Trade Mark Regulations 2004.

1. This statement provides an analysis of IPONZ's proposed changes to fees charged to patent and trade mark applicants and holders to recover its costs from financial year (FY) 2018/19 to FY 2023/24.
2. IPONZ's analysis has focused on ensuring that patent and trade mark fees are set at a level that will steadily reduce the current surplus in IPONZ's memorandum account, and avoid cross-subsidisation between trade mark and patent services. The analysis has also focused on how well the proposals align with the purposes of the Trade Marks Act 2002, Patents Act 1953 and Patents Act 2013, including:
 - a. simplify procedures for registering a trade mark in order to reduce costs to applicants and reduce compliance costs generally; and
 - b. providing an efficient and effective patent system that promotes innovation and economic growth, while providing an appropriate balance between the interests of inventors and patent owners and the interests of society as a whole.
3. Analysis of the impact of the proposals relies on volume-based forecasting, and historical analysis of volumetric data. Where new fees have been introduced, informed assumptions have been made about how these will impact applicant behaviour. While a range of possible economic scenarios have been forecasted and modelled in IPONZ's analysis, there is residual uncertainty about the impacts of these proposals.
4. IPONZ considered that the proposals met the cost recovery principles and objectives outlined in this document. The proposed fees meet these principles and objectives. In particular, the proposals are consistent with the authority to collect fees set out in the Patents Act 1953, the Patents Act 2013, and the Trade Marks Act 2002, and are sufficient to recover the costs of the patents and trade marks schemes without imposing undue costs on intellectual property rights holders.

Simon Gallagher

National Manager, Intellectual Property Office of New Zealand
Market Services Branch
Ministry of Business, Innovation and Employment

Executive summary

IPONZ is a business unit within MBIE, and is responsible for administering New Zealand's intellectual property (IP) rights system. IPONZ charges a number of fees for its services. Third party fees are used because the primary beneficiaries of the examination and grant of IP rights are those who apply for IP rights.

Since 2013, the IPONZ memorandum account balance has been accumulating a significant surplus, which is projected to peak at around \$30 million by financial year (FY) 2019/20. To address this, IPONZ undertook a review of the fees it charges for trade mark and patent services. One of the key drivers for the fees review was the need to ensure that the memorandum account surplus will trend steadily towards zero.

The fees review found that:

- Trade mark and patent revenue should be rebalanced to avoid cross-subsidisation between trade mark and patent services.
- The current memorandum account surplus should be reduced at a steady rate while avoiding or mitigating the risk of falling into deficit.
- The patent fee structure should be refined to better reflect the relative costs of patent services.
- The trade mark fee structure could be amended to make trade mark services more efficient and effective.

IPONZ has proposed a suite of changes to trade mark and patent fees to address these issues and opportunities:

- increasing patent renewal and application maintenance fees.
- increasing existing fees for certain high-cost patent services and introducing several new fees.
- incentivising efficient trade mark behaviour by introducing two new application fee options.
- simplifying options for trade mark pre-application advice by offering search advice and preliminary advice as a single bundled service.

As a whole, IPONZ expects the proposed fee changes to:

- Increase the complexity of the patent fee structure and the trade mark structure overall while making fees more effective, efficient and equitable.
- Rebalance trade mark and patent revenue and ensure a steady reduction in the memorandum account.
- Increase costs for patent applicants and patent holders without significant adverse effects on innovative activity.
- Reduce costs for trade mark applicants and trade mark holders.

Consultation with the industry was undertaken in July/August 2018 for a period of six weeks. Seven submissions were received. One submission was received from an industry body, and two submissions were received from IP rights holders. The remaining four submissions were received from IP agents.

On balance, taking in to account the feedback from submitters with the expectation that the scheme is adequately and equitably resourced, and that the memorandum account is appropriately managed, IPONZ recommends that the changes to patent and trade mark fees as outlined in tables 5 and 6 below are implemented.

Context and status quo

1. IPONZ is a business unit within the Ministry of Business, Innovation and Employment (MBIE). IPONZ is responsible for administering New Zealand's intellectual property (IP) rights system. The IP rights administered by IPONZ are trade marks, patents, designs, plant variety rights and geographical indications.
2. This fees review covers patent, trade mark and design fees. Fees for plant variety right services and geographical indication services were excluded from the scope of the review because:
 - a. plant variety right services are partially funded by the Crown and are not covered by the IPONZ memorandum account;
 - b. a review of the plant variety rights regime is planned for 2018/19, which will include review of fees; and
 - c. fees for geographical indication services were set in 2017 and do not require review at this stage.
3. IPONZ has statutory responsibilities under the Patents Act 1953, the Patents Act 2013, and the Trade Marks Act 2002. These responsibilities include the registration of patents and trade marks, the administration of disputes relating to the registration of patents and trade marks, and meeting obligations under international IP frameworks such as the Madrid Protocol and the Patent Cooperation Treaty.
4. IPONZ recovers almost all of the cost of its total work programme through fees charged to IP rights holders. A small portion (approximately \$85,000) is funded through Crown revenue, for the administration of plant variety rights.
5. Legislative authority to impose charges in relation to the administration of the trade marks scheme is provided under the Trade Marks Act 2002, and under the Patents Act 1953 and the Patents Act 2013 in relation to the administration of the patents scheme. The applicable fees for trade marks are prescribed under the Trade Marks Regulations 2003, and the applicable fees for patents are prescribed under the Patents Regulations 1954 and the Patents Regulations 2014.
6. The main fees currently charged by IPONZ include:
 - a. application and registration fees – paid before a trade mark is registered or patent granted;
 - b. renewal and maintenance fees – paid to maintain a trade mark or patent in force after it has been registered; and
 - c. hearing and opposition fees – paid when a matter relating to a trade mark or patent is contested before the Commissioners of Trade Marks or Patents.

Cost Recovery Principles and Objectives

7. IPONZ has identified the following principles to assess what level of fees would be most appropriate:

| # | Principle | Description |
|---|----------------------------|---|
| 1 | Effectiveness | Fees should contribute to the effectiveness of IPONZ and the IP regimes it administers. |
| 2 | Efficiency | Fees should be set at a level that is economically efficient. Fees should promote efficient production and consumption of IP services. IPONZ also needs to operate efficiently and offer its services at reasonable prices. |
| 3 | Equity | Fees should be as fair as possible. This includes both equity across IP regimes, and equity within IP regimes. |
| 4 | Simplicity and consistency | Fee structures should be kept as simple and consistent as possible. This helps ensure that it is relatively easy for fee payers to understand which fees they should pay. Consistency of fees over time also helps businesses plan effectively. |

8. IPONZ has also identified the following objectives that the cost recovery framework for trade mark and patent fees should fulfil. These objectives link the findings of the fees review to the specific fee change proposals. The objectives and relevant findings are outlined below.

| # | Objective | Relevant fees review findings | Relevant proposal |
|---|---|---|---|
| 1 | Restore parity between revenue from patent services and trade mark services | <p>Patent and trade mark fees are not reflecting the costs of providing these services. If current fees are maintained, trade mark services would cross-subsidise patent services.</p> <p>Parity between trade mark and patent services can be restored by setting fees at levels that make each IP regime's revenue roughly proportional to its share of IPONZ expenses.</p> | <p>Proposal 1</p> <p>Proposal 2</p> <p>Proposal 3</p> |
| 2 | Ensure a steady reduction in the memorandum account surplus | Fees should be set at a level that is economically efficient. Fees should promote efficient production and consumption of IP services. IPONZ also needs to operate efficiently and offer its services at reasonable prices. | <p>Proposal 1</p> <p>Proposal 2</p> |
| 3 | Maintain or enhance the current design of the patent fee structure | Overall design of the patent fee structure is sound, and should be maintained or strengthened by fee changes. Renewal fees are set above cost to incentivise allowing unused patents to lapse. Examination and other up-front fees are set below cost to ensure accessibility of patent | <p>Proposal 1</p> <p>Proposal 2</p> |

| | | | |
|---|---|---|------------------------------|
| | | system. The significant difference between renewal fees under the Patents Act 2013 and the Patents Act 1953 may be a factor inhibiting innovation. | |
| 4 | Better reflect the cost of individual patent services | Fees for examinations and restorations are relatively low. Options for pre-application trade mark advice could be simplified. Efficiency of the trade mark system could be improved by incentivising applicants to make less time-consuming applications where appropriate. | Proposal 1 Proposal 2 |
| 5 | Improve the efficiency and effectiveness of the trade mark system | Options for pre-application trade mark advice could be simplified. Efficiency of the trade mark system could be improved by incentivising applicants to make less time-consuming applications where appropriate. | Proposal 3 Proposal 4 |

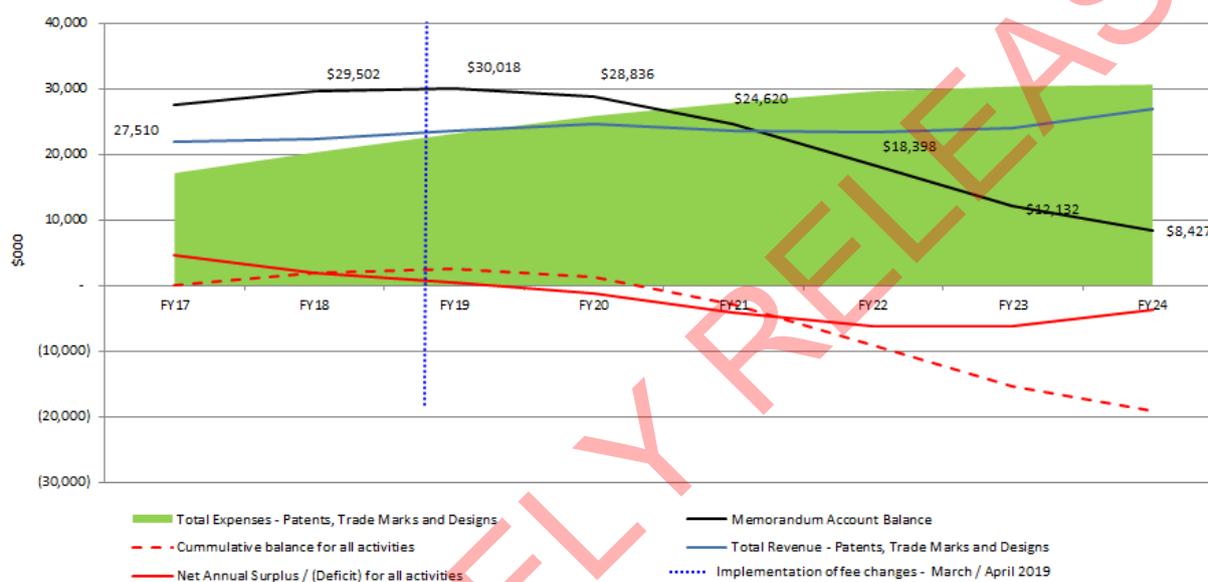
Reviews of cost recovery charges

9. The Treasury recommends that fees for cost recovered services are reviewed every four to five years. The fees for trade marks were last reviewed in 2012, and fees for patents were last reviewed in 2013.
10. The Patents Act 2013, which replaced the Patents Act 1953, came into full effect in September 2014. New patent fees were introduced as part of this change. At the time, IPONZ signalled that the next fees review may need to refine the new fees in light of experience. This need was the other major driver for the fees review. IPONZ now has enough data and practical experience to fully understand the costs of the regime and adjust patent fees accordingly.
11. Fee revenue covers the costs of IPONZ functions and services, including:
 - a. examining and registering trade marks, patents, designs, plant variety rights, and geographical indications;
 - b. conducting hearings on disputes relating to IP applications and registrations;
 - c. improving awareness of IP in the marketplace and how it can be commercialised; and
 - d. fulfilling obligations under IP related international treaties and free trade agreements.
12. Total annual fee revenue is a function of application volumes, and varies from year to year. To smooth out these variances and avoid the need to adjust fees too frequently, IPONZ uses a 'memorandum account', against which IPONZ records its surpluses and deficits. Treasury's *Guidelines for Setting Charges in the Public Sector* states that the balance of each memorandum account is expected to trend to zero over a realistic period of time.

13. Since 2013, the IPONZ memorandum account balance has been accumulating a steady surplus. This surplus is projected to peak at around \$30 million by financial year (FY) 2019/20. One of the key drivers for the fees review was the need to ensure that the memorandum account surplus will trend steadily towards zero.

14. The memorandum account balance is projected to reduce relatively quickly under current fees due to increasing cost pressures, with some risk of falling into deficit by June 2024. A steady reduction in the memorandum account surplus can be ensured by rebalancing trade mark and patent revenue and by increasing overall IPONZ revenue slightly. Figure 1 below shows the projected memorandum account balance under the status quo.

Figure 1: Memorandum account balance under status quo

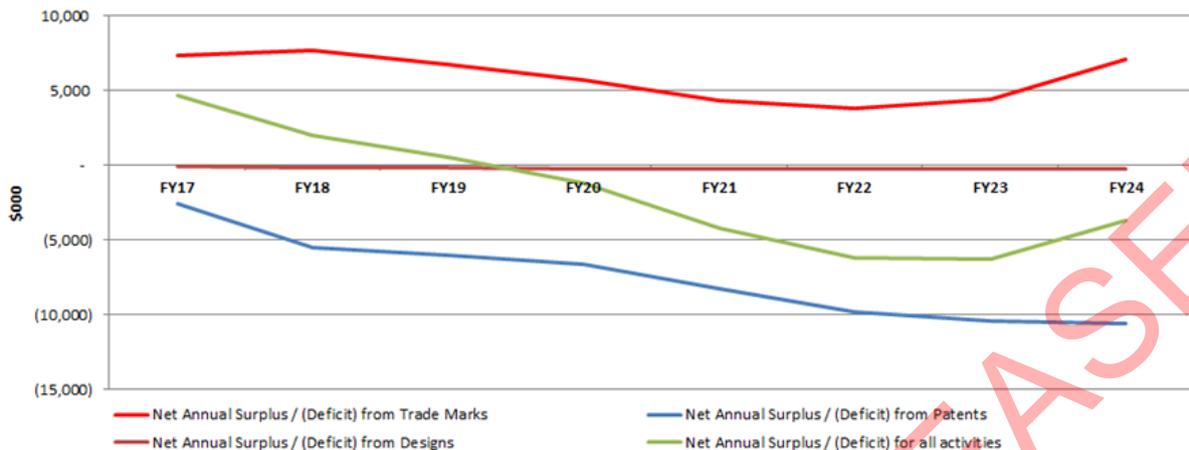


15. Our review of fees found that changes to trade mark and patent fees are required to address a range of issues and opportunities. These are:

- a. Trade mark and patent revenue should be rebalanced.
- b. The current memorandum account surplus should be reduced at a steady rate while avoiding or mitigating the risk of falling into deficit.
- c. The patent fee structure should be refined to better reflect the relative costs of patent services.
- d. The trade mark fee structure could be amended to make trade mark services more efficient and effective.

16. The review further found that cross-subsidisation between trade mark and patent services will occur if current fees are maintained. Cross-subsidisation occurs when the fee revenue from one type of service is put towards the cost of providing another type of service. In effect, continuing under the status quo would mean that users of trade mark services would be paying some of the cost of patent services, in the order of magnitude of millions of dollars (see Figure 2 below).

Figure 2: Net annual surpluses / deficits for trade mark, patent and design services



17. As part of the review, IPONZ assessed whether fees charged for design services are fit for purpose. IPONZ has not identified any issues or opportunities to improve the designs fee structure, and considers that there is no need for changes to the current fees. Design fees are currently operating at a small annual deficit. This is appropriate Given the surplus in the memorandum account.

Policy Rationale: Why a user charge? And what type is most appropriate?

18. IPONZ's main role is to examine applications for registrable IP rights, and grant them where the criteria for grant are met. IP rights can be considered 'private goods', as they are rivalrous, and are excludable, in that the owner of an IP right can exclude others from commercially exploiting goods and services covered by that right.
19. There is a strong case for recovering the costs of a private good from those who benefit from it. In the case of patents and trade marks, the recovery of the costs takes the form of fees. Third party fees are used because the primary beneficiaries of the examination and grant of IP rights are those who apply for IP rights.
20. Third party fees for IP protection are a well-accepted cost of doing business, both in New Zealand and in other countries, and continue to be the most appropriate mechanism to best meet IPONZ's costs in administering the Patents Act 2013, and Trade Marks Act 2002.
21. IPONZ's fees are charged to all persons who wish to apply for a registrable IP right. These can include individuals and small businesses through to corporate entities and multinational organisations.
22. The third party fees are intended to recover all of the costs of IPONZ's patents, trade marks and designs activities. In practice, IPONZ's fees are only a small portion of the expenses involved in developing and commercialising IP. In general, professional fees charged by agents such as registered patent attorneys are significantly higher than IPONZ fees.

23. IPONZ has adopted the 'cost to serve whole register' approach when setting its fees. This approach allows IPONZ to ensure that IP fees contribute to the underlying policy objective of each regime. For example, the Patents Act 2013 and Trade Marks Act 2003 both allow IPONZ to set fees for renewal of IP rights at a level that provides an incentive for IP holders to allow their rights to lapse if they are not receiving sufficient benefit from their IP right. These provisions are intended to contribute to the efficiency and effectiveness of the trade mark regime and the patent regime.

The level of the proposed fee and its cost components

24. A suite of changes have been developed to address the findings of the fees review and fulfil the fee change objectives. The changes have been grouped into four proposals:

- Proposal 1. increased patent renewal and maintenance fees
- Proposal 2. increased and new fees for high-cost patent services
- Proposal 3. new trade mark application fee options
- Proposal 4. simplified options for pre-application trade mark advice.

25. Further breakdown of the costs associated with each proposal is attached in annex 1. Forecasting of the revenue from the proposed fees is included in this document in the section titled 'Impact Analysis'.

Proposal 1: increased patent renewal and maintenance fees

26. Proposal 1 involves significant increases to patent renewal and application maintenance fees. The intent of these fee increases is to:

- a. recover a share of the increasing costs of providing patent services;
- b. provide a stronger incentive for holders of patents to allow them to lapse if they are not receiving enough benefit from the patent;
- c. provide a stronger incentive for applicants who are unlikely to commercially exploit their invention to abandon their application.

27. The fee changes that make up Proposal 1 are listed in Table 1 below, alongside the corresponding current fees.

| Table 1: Proposal 1 fee changes | | | | |
|--|-------------|--------------|-------------------|---------------|
| Services under Patents Act 2013 | Current fee | Proposed fee | Percentage change | Cost per unit |
| Maintenance fee if paid within 3 months of anniversary | \$100 | \$200 | +100% | \$95 |
| Maintenance fee if paid within 6 months of anniversary | \$150 | \$300 | +100% | \$95 |

| | | | | |
|---|-------|--------|-------|------|
| Renewal – 4 th to 9 th year | \$100 | \$200 | +100% | \$95 |
| Renewal – 10 th to 14 th year | \$200 | \$450 | +125% | \$95 |
| Renewal – 15 th to 19 th year | \$350 | \$1000 | +185% | \$95 |
| Penalty for late payment of a renewal fee | \$50 | \$100 | +100% | \$95 |

28. All of these fees (excluding the penalty for late payment) have been set significantly above the estimated cost per unit. Section 243(2)(a) of the Patents Act 2013 allows renewal and maintenance fees to be set at a level that recovers a share of the overall costs of the patent system. Section 243(2)(b) of the Patents Act 2013 allows renewal and maintenance fees to incentivise patent holders to allow unused patents to lapse, and patent applicants to abandon applications where they are not receiving, or will not receive, sufficient benefit from the patent.

Proposal 2: increased and new fees for high-cost patent services

29. Proposal 2 involves increasing existing fees for certain high-cost patent services and introducing several new fees. The intent of these fee changes is to better reflect the high overall costs of these services, and variations in the cost of individual requests. Table 2 below shows the fee changes under Proposal 2, with new fees listed in italics.

| Table 2: Proposal 2 fee changes | | | | |
|---|-------------|--------------|----------------------|---------------|
| Services under Patents Act 2013 | Current fee | Proposed fee | Percentage change | Cost per unit |
| Examination | \$500 | \$750 | +50% | \$3112 |
| Examination under Patent Cooperation Treaty | | | | \$2604 |
| Re-examination | | | | \$2300 |
| <i>Examination of claims in excess of 29 (per 5 claims) (new fee)</i> | <i>N/A</i> | <i>\$120</i> | <i>N/A (new fee)</i> | <i>\$171</i> |
| Amendment after acceptance | \$150 | \$500 | +233% | \$1168 |
| Request for restoration | \$100 | \$600 | +500% | \$2153 |
| Services under Patents Act 1953 | Current fee | Proposed fee | Percentage change | |
| Filing of complete specification | \$250 | \$500 | +100% | \$1920 |
| <i>Amendment before acceptance (new fee)¹</i> | \$60 | \$150 | +150% | \$253 |
| <i>Amendment after acceptance (new fee)</i> | | \$500 | +733% | \$1168 |

¹ This is a change to the current fee structure in the Patents Regulations 1954. The current Patent Regulations 1954 include a single fee for amendment, before or after acceptance.

30. The rationale for the new fees listed above are:

- a. Excess claims fee: the design of the new excess claims fee has been adjusted by reducing the number of claims covered by the fee (from 10 claims to 5 claims) and the fee level (from \$200 to \$120). This change is in response to a submitter's comment that the proposed excess claim fee structure did not completely reflect the cost of examining applications with excess claims. For example an application with 30 claims would pay the same excess claim fee as one with 39 claims. The application with 39 claims has 30% more claims than the one with 30 claims.
- b. Amendment before acceptance, and amendment after acceptance: these fees have been introduced as a change to the current fee structure in the Patents Regulations 1954. The current Patent Regulations 1954 include a single fee for amendment, before or after acceptance, and is not representative of the costs of providing the service.

31. All of these new and increased fees have been set below the estimated cost per unit, for the following reasons:

- a. As noted under Proposal 1 above, renewal and maintenance fees recover a portion of the total cost of the patents system
- b. The IPONZ memorandum account is in surplus, so overall IPONZ revenue needs to be lower than overall expenses
- c. There are efficiency and effectiveness benefits from setting certain fees such as examination and amendment fees significantly below the estimated cost per unit, because patent applicants may be cost-sensitive before an invention has been patented and commercialised.

Proposal 3: new trade mark application fee options

32. IPONZ has identified an opportunity to incentivise efficient trade mark behaviour by introducing two new application fee options. These fee options would be alternatives to the current application fee (the standard application fee).

33. Applications that use the list of pre-approved classification terms (the classification picklist) would be charged a discounted fee of \$70. This is intended to improve efficiency by creating an incentive for applicants to use the classification picklist, which makes applications faster to examine because less effort is required to confirm the classification of the goods and services covered by the proposed trade mark.

34. Applications that are based on pre-application advice (search advice and preliminary advice) would be charged a discounted fee of \$50. This is intended to improve efficiency as applications that are based on both search advice and preliminary advice are much faster to examine than standard applications because this work has already been completed.

35. Table 3 below shows the comparison of current fees, proposed fees, and the percentage change.

| Table 3: Proposal 3 fee changes | | | | |
|---|--------------------|---------------------|--------------------------|----------------------|
| Services under the Trade Marks Act 2002 | Current fee | Proposed fee | Percentage change | Cost per unit |
| Application to register a trade mark – standard (per class) | \$150 | \$100 | -33% | \$174 |
| <i>Application to register a trade mark – based on pre-application advice (per class) (new fee)</i> | | \$50 | -66% | \$86 |
| <i>Application to register a trade mark – using picklist of pre-approved classification terms (per class) (new fee)</i> | | \$70 | -53% | \$133 |
| Renewal of registration of a trade mark (per class, every 10 years) | \$350 | \$200 | -43% | \$52 |

36. The rationale for the new fees listed above are:

- a. Discounted application fees: the propose changes includes introducing a reduced fee for trade mark applications that use the classification picklist, and introducing a reduced fee for trade mark applications based on pre-application advice. Both of these reduced fees are intended to incentivise applicants to submit trade mark applications which can be more efficiently examined, and have reduced costs associated with them.

Proposal 4: simplified options for pre-application trade mark advice

37. IPONZ has found that the current options for pre-application trade mark advice are ineffective and inefficient. IPONZ proposes simplifying these options by offering search advice and preliminary advice as a single bundled service, with a fee of \$50.

38. This proposal is intended to simplify the trade mark fee schedule, and avoid unsuccessful trade mark applications that are based on only a search report or a preliminary advice report.

39. Table 4 below shows the comparison of current fees, proposed fees, and the percentage change.

| Table 4: Proposal 4 fee changes | | | | |
|--|--------------------|---------------------|--------------------------|----------------------|
| Service | Current fee | Proposed fee | Percentage change | Cost per unit |
| Request for search advice (per class) | \$40 | \$50 | +25% | \$120 |
| Request for preliminary advice (per class) | \$40 | | | |

Impact analysis

40. As a whole, IPONZ expects the proposed fee changes to:

- a. Increase the complexity of the patent fee structure and the trade mark structure overall while making fees more effective, efficient and equitable; and
- b. Rebalance trade mark and patent revenue and ensure a steady reduction in the memorandum account;
- c. Increase costs for patent applicants and patent holders without adverse effects on innovative activity;
- d. Reduce costs for trade mark applicants and trade mark holders.

Increase complexity while improving effectiveness, equity and efficiency

41. The introduction of several new fees is expected to increase the complexity of the patent and trade mark fee structures. The new fees could confuse some applicants, especially early in the implementation of the fees.

42. Overall, IPONZ considers that the increase in complexity is warranted because the new fees will improve the effectiveness, equity and efficiency of IPONZ services. Ultimately, these benefits flow to fee payers and the public in the form of better quality services, lower overall costs and a more fair distribution of the costs and benefits of IP protection.

Rebalance trade mark and patent revenue and ensure a steady reduction in the memorandum account

43. These fee changes are expected to restore parity between revenue from trade mark services and patent services, by making trade mark revenue and patent revenue roughly proportional to their share of IPONZ expenses. This impact would contribute to the equity and efficiency of the patents and trade mark systems.

44. The trade marks regime is projected to incur 36.5% of total IPONZ expenses between July 2019 and July 2024, and the patents regime is projected to incur 60.1%. Under the proposed fee changes, trade mark fees are forecast to make up 36.4% of total IPONZ revenue and patent fees are forecast to make up 60.6%.

45. The fee changes are also expected to ensure a steady reduction in the memorandum account surplus under a range of scenarios. The fee changes are forecast to reduce the memorandum account balance to \$9.9m by July 2024. There is little risk of the memorandum account falling into deficit under the proposed fees, even if IPONZ revenue is much lower than expected and expenses are higher than expected (projected account balance = \$1.2m in July 2024). The proposed fees also ensure that the memorandum account would reduce steadily if revenue is much higher than expected and expenses are lower than expected (projected account balance = \$18.3m in July 2024).

46. The figures below show the projected memorandum balance under a range of scenarios.

Figure 3: Memorandum account balance under proposed fee scenario

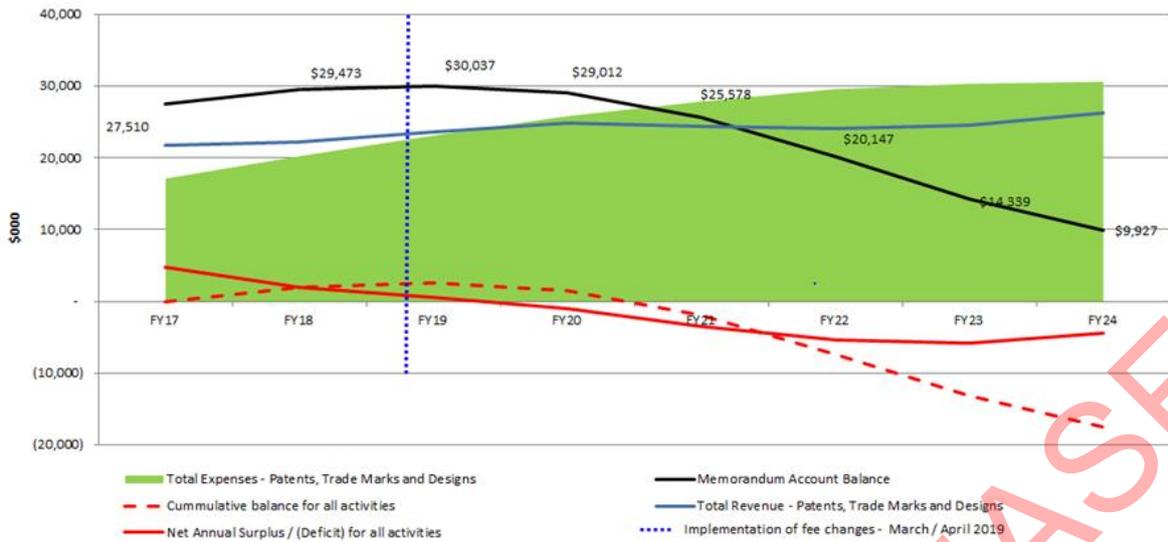


Figure 4: Memorandum account balance with decreased revenue, 'downside scenario'

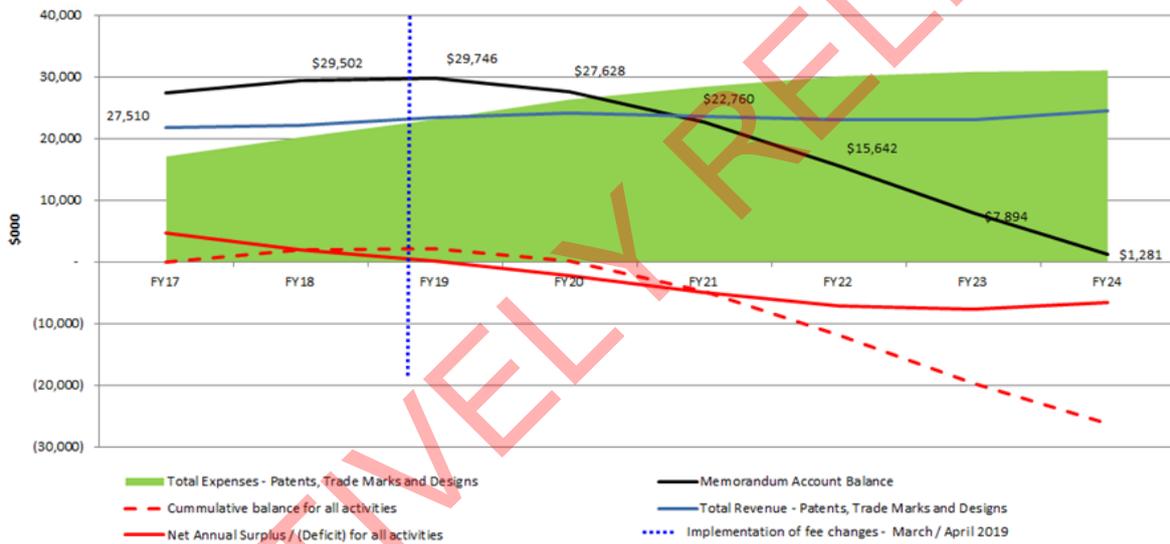
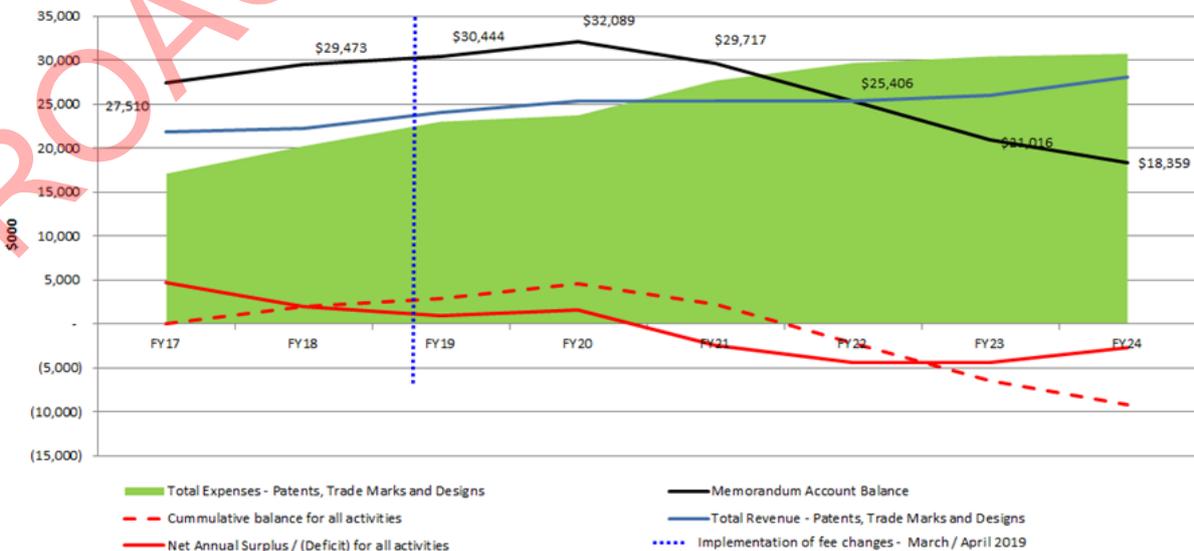


Figure 5: Memorandum account balance with increased revenue, 'upside scenario'



Increase patent costs without affecting innovation

47. IPONZ expects the fee changes to increase costs for patent applicants and patent holders, but does not expect any substantive adverse effects on innovation as a result.,
48. The whole of life fees for a complete specification under the Patents Act 2013 would increase from \$4100 to \$9450 (excluding any excess claims fees). This cost increase is expected to affect around 10,000 patent fee payers a year. The whole of life fees for a single divisional application under the Patents Act 1953 would increase from \$2300 to \$3080, affecting only 300-500 fee payers a year.
49. IPONZ considers that these overall cost increases are unlikely to affect levels of innovation in New Zealand or internationally. This is because:
- a. Costs are distributed across the life of a patent, with lower up-front costs when applicants are undertaking innovative activity and unlikely to be profiting from their inventions. Patent applications have an average lifespan of 6 years.
 - b. IPONZ fees are only a small portion of the expenses involved in developing and commercialising an invention, and in obtaining patent protection. For example, 98% of patent applications are made by patent attorneys and other agents. In general, the professional fees charged by patent attorneys are significantly higher than IPONZ patent fees.
 - c. Both New Zealand and international patent applicants are likely to be paying fees in other jurisdictions, which in general are similar to the proposed fees. 85-90% of patent applications received by IPONZ are from overseas applicants.
 - d. The proposals for amendments to fees under the Patents Act 1953 may support innovation by reducing the incentive for continued divisional applications under the 1953 Act.²
50. The overall cost increase is necessary because current fees significantly under recover costs, meaning the patents regime is running at a significant deficit.

Reduced costs for trade mark applicants and holders

51. Under the proposed fees, the total cost of applying for and holding a single trade mark for 20 years would decrease from \$850 to \$500. This reduction in cost is small in magnitude but may be of benefit to small businesses, community groups and other trade mark applicants that are cost sensitive. IPONZ expects that the cost savings will benefit around 15,000 trade mark fee payers a year, including new applicants and existing trade mark holders.
52. The reduction in costs may lead to a moderate increase in volumes of domestic trade mark applications – for example, cost sensitive applicants may apply across more classes than they would have under previous fees. To the extent that cost sensitive applicants actually need and use trade mark protection, this could be seen as a benefit of the proposal. IPONZ considers that this effect is likely to be small in magnitude, as the

²Applicants with pending applications under the Patents Act 1953 can 'divide' their existing application into one or more separate applications, with priority rights and other dates being kept from the original filing date. These applications are referred to as 'divisional applications', and are charged the standard 1953 fee for filing of a complete specification (\$250). Divisional applications can be filed up to 20 years after the filing of the original application (referred to as the 'parent application').

cost of the current fees is likely to be insignificant compared to the benefits of protecting their IP through trade marks.

Consultation

53. IPONZ undertook public consultation through the release of a discussion document on the proposed fee changes. The discussion document sought feedback on the proposed options for fee changes and the impacts on the fee changes on the patents and trade marks system.
54. Information about the consultation was posted on MBIE's and IPONZ's websites. IPONZ also contacted key stakeholders (e.g. The New Zealand Institute of Patent Attorneys) to make them aware of the consultation.
55. Seven submissions were received in total. One submission was received from an industry body, and two submissions were received from IP rights holders. The remaining four submissions were received from IP agents.
56. Most submitters supported the overall proposal of increasing maintenance fees and renewal fees under the Patents Act 2013 and Patents Act 1953. Several submitters suggested more moderate increases to renewal fees, on the basis that the proposed fee increases could discourage New Zealand businesses from obtaining patent protection.
57. Submissions on Proposal 2 were mixed. One submitter (Fisher & Paykel) supported Proposal 2 fully and considered that these fee increases would have a relatively minor impact on overall costs to patentees. The other two submitters who commented directly on Proposal 2 supported it to some degree, but suggested more moderate fee increases and raised concerns about some specific fee changes under the proposal.
58. Three submitters supported Proposal 3, and two submitters were concerned that the proposed reduced fees encourage the use of the classification picklist and pre-application advice, which could disadvantage applicants who take proper legal advice.
59. Two submitters made a submission on Proposal 4, and both were in support. Submitters noted the usefulness of pre-application advice to self-filing applicants, who are likely to have a limited understanding of the requirements for the registration of a trade mark.

Conclusions and recommendations

60. On balance, taking in to account the feedback from submitters with the expectation that the scheme is adequately and equitably resourced, and that the memorandum account is appropriately managed, IPONZ recommends that the changes to patent and trade mark fees as outlined in tables 5 and 6 below are implemented.
61. Fees not listed in tables 5 and 6 will remain the same. These fees are outlined in Annex 2.

| Table 5: Proposed changes to patent fees (GST exclusive) | | |
|--|--------------------|---------------------|
| Service (Patents Act 2013) | Current fee | Proposed fee |
| Request for examination (including PCT examinations and re-examinations) | \$500 | \$750 |
| <i>Examination of patent specification with 30 claims or more (per 5 claims) (new fee)</i> | No fee | \$120 |
| Request for leave to amend complete specification after acceptance | \$150 | \$500 |
| Application maintenance fee if paid within 3 months of anniversary | \$100 | \$200 |
| Application maintenance fee if paid within 6 months of anniversary | \$150 | \$300 |
| Annual renewal fee – 4 th to 9 th year | \$100 | \$200 |
| Annual renewal fee – 10 th to 14 th year | \$200 | \$450 |
| Annual renewal fee – 15 th to 19 th year | \$350 | \$1000 |
| Penalty payable for request to extend the period for payment of a renewal fee | \$50 | \$100 |
| Request for restoration of patent or patent application | \$100 | \$600 |
| Service (Patents Act 1953) | Current fee | Proposed fee |
| On filing complete specification | \$250 | \$500 |
| <i>Application to amend complete specification before acceptance (new fee)</i> | \$60 | \$150 |
| <i>Application to amend complete specification after acceptance (new fee)</i> | | \$500 |

| Table 6: Proposed changes to trade mark fees (GST exclusive) | | |
|---|--------------------|--|
| Service | Current fee | Proposed fee |
| Request for search advice (per class) | \$40 | \$50 for search and preliminary advice |
| Request for preliminary advice (per class) | \$40 | |

| | | |
|---|-------|-------|
| Application to register a trade mark – standard (per class) | | \$100 |
| <i>Application to register a trade mark – based on pre-application advice (per class) (new fee)</i> | \$150 | \$50 |
| <i>Application to register a trade mark – using picklist of pre-approved classification terms (per class) (new fee)</i> | | \$70 |
| Renewal of registration of a trade mark (per class, every 10 years) | \$350 | \$200 |

Implementation plan

62. IPONZ proposes to proactively release the Cabinet paper and Summary of Submissions in order to notify fee payers of the fee changes. This timing is intended to allow fee payers ample time to adjust to the amended and new fees. IPONZ proposes that the new fees would come into force in early to mid-2019.

Monitoring, evaluation and review

63. Once the proposed fees take effect IPONZ will evaluate the efficiency and effectiveness of the fee changes by identifying benchmarks and indicators that correspond to the objectives and policy intent of the fee changes, and proactively monitoring those benchmarks and indicators on an ongoing basis. The necessary data will be collected through IPONZ’s examination framework and associated IT systems.

64. For example, the objective of “better reflect the cost of individual patent services” would be quantified against timesheet data which allows IPONZ to measure the cost of individual patent services.

65. There is no legislative requirement for the review frequency of this scheme. In order to ensure that the scheme is adequately resourced and operating efficiently, and that over-recovery or under-recovery is minimised, IPONZ intends to carry out a fees review in 4-5 years’ time, in accordance with Treasury guidance. This review is likely to include consideration of:

- a. the trend in the memorandum account balance;
- b. parity between trade mark and patent revenue levels; and
- c. impacts on application volumes and types as a result of new and amended fees.

66. However, IPONZ may carry out a fees review earlier if it considers an out-of-cycle review is warranted. For example, economic conditions impact on patent and trade application volumes, or fluctuations in the memorandum account balance indicate a large deficit or surplus is likely.

Annex 1: Costs recovered by proposed fees

The tables in this annex set out estimates of the costs recovered by all proposed patent, trade mark, and design fees. Fees that would remain the same under the proposals in this document are included and highlighted in **grey**. All fees listed are exclusive of GST.

The estimated per unit costs in the table below are based on FY 2021/22. Per unit costs grow across the forecast period, so costs in FY 2021/22 are the best available estimate of the average costs between implementation (mid 2018/19) and the end of the forecast period (2023/24).

| Table 1: Forecasted costs recovered by proposed patent fees | | | | | | | |
|---|-------------|--------------|------------------------------|------------------------------|--------------------------------------|------------------------------|-----------------------|
| Service | Current fee | Proposed fee | Personnel costs ³ | Operating costs ⁴ | Capital and asset costs ⁵ | Corporate costs ⁶ | TOTAL forecasted cost |
| Application accompanied by a provisional specification | \$100 | \$100 | - | \$61 | \$20 | \$14 | \$95 |
| Application accompanied by a complete specification (incl. convention applications) | \$250 | \$250 | \$43 | \$63 | \$20 | \$45 | \$171 |
| Application for entry into the national phase of a PCT application | \$250 | \$250 | \$22 | \$62 | \$20 | \$29 | \$133 |
| Transmittal fee for filing of PCT applications | \$180 | \$180 | \$216 | \$71 | \$20 | \$168 | \$475 |
| Request for examination | \$500 | \$750 | \$1773 | \$137 | \$20 | \$1282 | \$3212 |
| Request for examination of application under PCT | \$500 | \$750 | \$1427 | \$122 | \$20 | \$1034 | \$2604 |

³ Personnel costs represent the estimated cost of staff time spent on each unit.

⁴ Operating costs represent the estimated cost of internal IPONZ operating expenses such as IT systems and travel .

⁵ Capital and asset costs represent the cost of capital invested in IPONZ assets, including depreciation of assets and the 'capital charge'.

⁶ Corporate costs represent overhead costs, including office space and support from central services such as HR and legal.

Table 1: Forecasted costs recovered by proposed patent fees

| Service | Current fee | Proposed fee | Personnel costs³ | Operating costs⁴ | Capital and asset costs⁵ | Corporate costs⁶ | TOTAL forecasted cost |
|--|--------------------|---------------------|------------------------------------|------------------------------------|--|------------------------------------|------------------------------|
| Request for re-examination | \$500 | \$750 | \$1254 | \$115 | \$20 | \$911 | \$2300 |
| Amendment before acceptance | \$60 | \$150 | \$92 | \$65 | \$20 | \$76 | \$253 |
| Request for leave to amend after acceptance | \$150 | \$500 | \$745 | \$80 | \$20 | \$323 | \$1168 |
| Additional fee for examination of patent with 30 claims or more (per 5 claims) | - | \$200 | \$43 | \$63 | \$20 | \$45 | \$171 |
| Application maintenance – within 3 months | \$100 | \$200 | - | \$61 | \$20 | \$14 | \$95 |
| Application maintenance – within 6 months | \$150 | \$300 | - | \$61 | \$20 | \$14 | \$95 |
| Annual renewal fee – 4 th – 9 th year | \$100 | \$200 | - | \$61 | \$20 | \$14 | \$95 |
| Annual renewal fee – 10 th – 14 th year | \$200 | \$450 | - | \$61 | \$20 | \$14 | \$95 |
| Annual renewal fee – 15 th – 19 th year | \$350 | \$1000 | - | \$61 | \$20 | \$14 | \$95 |
| Late payment penalty | \$50 | \$100 | - | \$61 | \$20 | \$14 | \$95 |
| Request for restoration of a patent or patent application | \$100 | \$600 | \$1566 | \$89 | \$20 | \$478 | \$2153 |
| Notice of opposition | \$350 | \$350 | \$1554 | \$61 | \$20 | \$14 | \$1639 |
| Request for a hearing | \$850 | \$850 | \$1554 | \$61 | \$20 | \$14 | \$1639 |
| Application to revoke a patent | \$350 | \$350 | \$1554 | \$61 | \$20 | \$14 | \$1639 |
| Filing complete specification (Patents Act 1953) | \$250 | \$500 | \$1038 | \$106 | \$20 | \$756 | \$1920 |
| Periodic renewal fee – 4th year (Patents Act 1953) | \$170 | \$170 | - | \$61 | \$20 | \$14 | \$95 |

| Table 1: Forecasted costs recovered by proposed patent fees | | | | | | | |
|---|-------------|--------------|------------------------------|------------------------------|--------------------------------------|------------------------------|-----------------------|
| Service | Current fee | Proposed fee | Personnel costs ³ | Operating costs ⁴ | Capital and asset costs ⁵ | Corporate costs ⁶ | TOTAL forecasted cost |
| Periodic renewal fee – 7th year (Patents Act 1953) | \$340 | \$340 | - | \$61 | \$20 | \$14 | \$95 |
| Periodic renewal fee – 10th year (Patents Act 1953) | \$540 | \$540 | - | \$61 | \$20 | \$14 | \$95 |
| Periodic renewal fee – 13th year (Patents Act 1953) | \$1000 | \$1000 | - | \$61 | \$20 | \$14 | \$95 |

| Table 2: Forecasted Costs recovered by proposed trade mark fees | | | | | | | |
|---|-------------|--------------------------|----------------------|----------------------|------------------------------|----------------------|-----------------------|
| Service | Current fee | Proposed fee (per class) | Est. personnel costs | Est. operating costs | Est. capital and asset costs | Est. corporate costs | TOTAL forecasted cost |
| Request for search and preliminary advice | \$40 | \$50 | \$40 | \$26 | \$16 | \$38 | \$120 |
| Trade mark application – standard | \$150 | \$100 | \$72 | \$27 | \$16 | \$59 | \$174 |
| Trade mark application – based on pre-application advice | \$150 | \$50 | \$20 | \$25 | \$16 | \$25 | \$86 |
| Trade mark application – using classification picklist | \$150 | \$70 | \$48 | \$26 | \$16 | \$43 | \$133 |
| Renewal of registration of trade mark | \$350 | \$200 | - | \$24 | \$16 | \$11 | \$52 |
| Notice of opposition to registration of a trade mark | \$350 | \$350 | \$1143 | \$24 | \$16 | \$11 | \$1195 |
| Hearing by Commissioner for each party | \$850 | \$850 | \$1143 | \$24 | \$16 | \$11 | \$1195 |
| Application for revocation of registration of trade mark | \$350 | \$350 | \$1143 | \$24 | \$16 | \$11 | \$1195 |

| | | | | | | | |
|---|-------|-------|--------|------|------|------|--------|
| Application for declaration of invalidity of registration | \$350 | \$350 | \$1143 | \$24 | \$16 | \$11 | \$1195 |
|---|-------|-------|--------|------|------|------|--------|

Table 3: Forecasted costs recovered by design fees (no changes proposed)

| Service | Proposed fee | Est. personnel costs | Est. operating costs | Est. and costs | capital asset | Est. corporate costs | TOTAL forecasted cost |
|----------------------------------|--------------|----------------------|----------------------|----------------|---------------|----------------------|-----------------------|
| Application for registration | \$100 | \$68 | \$71 | \$53 | | \$86 | \$278 |
| First renewal fee (for 5 years) | \$100 | \$6 | \$68 | \$53 | | \$41 | \$169 |
| Second renewal fee (for 5 years) | \$200 | \$15 | \$69 | \$53 | | \$47 | \$184 |
| Notices of opposition | \$300 | \$1250 | \$68 | \$53 | | \$41 | \$1412 |
| o Hearing fee for each party | \$750 | \$1250 | \$68 | \$53 | | \$41 | \$1412 |

PROACTIVELY RELEASED

Annex 2: Summary of current patent, trade mark and design fees

Below are tables setting out the current fees under the Trade Marks Act 2003, the Patents Act 2013, the Patents Act 1953 and the Designs Act 1953. All fees are GST exclusive. Fees that would remain the same under the proposals in this document are highlighted in **grey**.

Table 1: Current fees under Trade Marks Act 2003

| Activity title | Description of activity | Fee |
|---|--|-------|
| Request for search advice (per class) | Examiners search the trade marks register to see if the trade mark is already in use. | \$40 |
| Request for preliminary advice (per class) | Examiners provide preliminary advice on the registrability of the trade mark. | \$40 |
| Application for a trade mark (per class) | Application for examination and registration for a trade mark in one class of goods or services. | \$150 |
| Renewal of registration of trade mark (per class) | Fee for renewing the registration of a trade mark for a period of 10 years. | \$350 |
| Notice of opposition to registration of a trade mark | Fee for submitting a motion to oppose the registration of a trade mark. | \$350 |
| Hearing by Commissioner for each party | Fee imposed when a hearing takes place. | \$850 |
| Application for revocation of registration of trade mark | Fee for submitting a motion to revoke a registered trade mark. | \$350 |
| Application for declaration of invalidity of registration | Fee for submitting a motion to declare a registered trade mark invalid. | \$350 |

Table 2: Current fees under Patents Act 2013

| Activity title | Description of activity | Fee |
|--|---|-------|
| Application accompanied by a provisional specification | A provisional application for a patent that is less detailed than a standard application. This is often used to buy more time for research and development. | \$100 |
| Application accompanied by a complete specification | A standard application for a patent. This fee covers the filing of the patent specification but not examination of the specification. | \$250 |

| Activity title | Description of activity | Fee |
|--|---|-------|
| Application made under the Paris Convention | An application based on the first application for an invention filed in a Paris Convention country. | \$250 |
| Application for entry into the national phase of a Patent Cooperation Treaty (PCT) application | An international application which is being filed in a large number of jurisdictions simultaneously under the Patent Cooperation Treaty. In New Zealand this activity is treated as a patent application accompanied by a complete specification. | \$250 |
| Transmittal fee for filing of PCT applications | An application by a New Zealand applicant for their patent specification to be filed in a large number of jurisdictions simultaneously under the PCT. | \$180 |
| Request for examination or re-examination | A request for examining a patent or re-examining a patent once changes have been made. | \$500 |
| Amendment by applicant of complete specification before acceptance | Amending the specification of a patent to overcome an objection raised in examination, or to overcome an opposition to registration. | \$150 |
| Request for leave to amend complete specification after acceptance | Amending the specification of a patent after the patent has been accepted for granting. | \$150 |
| Application maintenance fee if paid within 3 months | A fee paid to extend the time for an existing application or on lapsed applications approved for restoration. | \$100 |
| Application maintenance fee if paid within 6 months | As above, but including an additional charge for late payment under regulation 9(1)(b) of the Patent Regulations 2014. | \$150 |
| Renewal fee (4th – 9th year) | Annual fee to keep a granted patent on the patents register. | \$100 |
| Renewal fee (10th – 14th year) | Annual fee to keep a granted patent on the patents register. | \$200 |
| Renewal fee (15th – 19th year) | Annual fee to keep a granted patent on the patents register. | \$350 |
| Late payment penalty | Penalty for renewal fees paid after the due date. | \$50 |
| Request for restoration of a patent or patent application | Request to restore a lapsed patent application or patent due to non-payment of maintenance or renewal fees. | \$100 |
| Notice of opposition | Fee for submitting a motion to oppose the grant of a patent. | \$350 |

| Activity title | Description of activity | Fee |
|--------------------------------|--|-------|
| Request for a hearing | Fee for requesting a hearing on opposition to or revocation of a patent. | \$850 |
| Application to revoke a patent | Fee for submitting a motion to revoke a registered patent. | \$350 |

Table 3: Current fees under Patents Act 1953

| Activity title | Description of activity | NZ fee (exclusive of GST) |
|--|---|---------------------------|
| Filing complete specification | The standard application fee for a patent, including examination of the patent. Divisional applications are charged this fee. | \$250 |
| Application to amend complete specification (before or after acceptance) | Amending the specification of a patent before or after the patent has been accepted for granting. | \$60 |
| Renewal fee: 4 th year | Fee to keep a granted patent on the patents register. | \$170 |
| Renewal fee: 7 th year | “ “ | \$340 |
| Renewal fee: 10 th year | “ “ | \$540 |
| Renewal fee: 13 th year | “ “ | \$1000 |

Table 4: Current fees under Designs Act 1953

| Activity title | Description of activity | NZ fee (exclusive of GST) |
|------------------------------|---|---------------------------|
| Application for registration | Application and examination fee for registering a design. | \$100 |
| First renewal fee | Fee for renewing the registration of a design. | \$100 (for 5 years) |
| Second renewal fee | Fee for renewing the registration of a design. | \$200 (for 5 years) |

| | | |
|--|---|-------|
| Notice of opposition by opponent | Fee for submitting a motion to oppose a registration of a design. | \$300 |
| Hearing fee for each party | Fee imposed when a hearing takes place. | \$750 |
| Notices of opposition to correction to error | Fee for submitting a motion to oppose a correction of an error in a design. | \$300 |

PROACTIVELY RELEASED