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**FOR ATTENTION: Mr Trod Lehong
The Registrar of Patents**

16 May 2019

Dear Trod,

**SUBMISSION BY SOUTH AFRICAN INSTITUTE OF INTELLECTUAL
PROPERTY LAW (SAIIPL) IN RESPECT OF: NOTICE NO 24 AND
GENERAL NOTICE - AMENDMENT OF THE PATENT AND DESIGN
REGULATIONS – CIPC: INCREASE IN PATENT OFFICE FEES**

INTRODUCTION

1. We refer to the above notice regarding proposed increases in fees for patents and designs in particular, that was issued by your office, and which was initially proposed for implementation on 1 April 2019, but has been postponed to 1 July 2019 according to the latest information at hand.
2. SAIPL, as the spokesperson for the vast majority of the industry, is not opposed to a fee increase *per se*, but is concerned about the magnitude of some of the increases, which is as much as ten times higher than current tariffs in certain instances, as well as certain inaccuracies or uncertainties in the proposed amendment to the Patent and Design Regulations whereby the proposed fee increases are to be implemented. It was therefore, for the sake of clarity and legal certainty, decided to submit a joint submission on behalf of SAIPL, and in particular the Patent and Design Law Subcommittee of SAIPL, to ensure a smooth transition into the new regime, in the interest of all stakeholders in the industry.

NECESSITY OF FEE INCREASE

3. A fee increase was expected in view of the new substantive search and examination proceedings foreseen in the National IP Policy, and because fees have remained unchanged for multiple years, and have

fallen behind and lost track with global fee tendencies.

4. Although there is no exact science as to best practice for a fee policy, it is not clear what the rationale was when determining the increase in official fees associated with obtaining and maintaining patent and design rights in the case of South Africa. For instance: the proposed increase in renewal fees will cause an annual renewal fee to be higher than the application fee, and seems to be without clear basis. A business view is that from a technological or economic perspective the commercial value of an invention at the time of filing is often low and thus justify lower application fees and higher renewal fees as the value of the IP asset grows as its protection and commercialisation potential increase. However, from an impact perspective it appears that the decision to implement the higher fees has been taken without due consideration as to the extremely prohibitive effect that it may have on an applicant's selection of South Africa as a jurisdiction, or corporates in South Africa that have large patent portfolios, to file and specifically **maintain** their patents. Most corporates are advised by their IP counsel to consider paying full term bulk renewal fees as soon as possible so as to avoid the increase in renewal fees. This is, however, a short-term solution and does not address the concern.
5. Whilst we are mindful that fees have not been increased for multiple years, a sudden disproportionate increase to make up for the lost years is not an equitable and viable solution. In addition, increases (if any) are generally coupled with increases in CPI, and the automatic 5% annual increase creates further concerns, as expanded on below.

UNCERTAINTY IN VIEW OF ENTITY STATUS

6. The current notice proposes a different fee structure for Corporate vs SMME's (Small, Medium and Micro-sized Enterprises). Whilst a different fee structure for entities according to size and other objective factors is in line with global practice, the definition of SMME's in the proposed amendment to the patent regulations is problematic. The amended regulations provide that for purposes of the patent regulations, an SMME shall be a "*small, medium and micro enterprise in terms of National*

Small Business Amendment Act, 2003 (Act no. 26 of 2003)“. In this regard, it is noted that the definition of SMME in the regulations should refer to both the Amendment Act 26 of 2003 (as is currently the case, and where the updated schedule is to be found) as well as the founding Act 102 of 1996 as that’s where the actual definition is set out.

7. The proposed definition of SMME’s base the classification as such on three main factors, namely i) number of fulltime employees, ii) total annual turnover and iii) total gross asset value (excluding fixed property). The main concerns with SMME’s as per the proposed definition are that it does, however, not provide for two particular entities that constitute a significant portion of local applicants, namely individuals and public research institutions (including universities).
8. Individuals and public research institutions (and in particular universities) should also be entitled to the lower scale of fees. This is the case in most major countries that we are aware of that have a higher and lower scale of fees based on applicant type. For example, in the United States, all universities qualify for small entity status. The following other countries/regions also give qualifying universities the benefit of lower fee scales: Canada, Japan, France and the European Patent Office.
9. The definition of “Corporate” is also not sufficiently clear. The Companies Act, Act 71 of 2008, does not contain a definition of “Corporate”, nor does the Patent or Design Acts contain such definitions. The term “Corporate” is thus unclear and requires some qualification. It is also proposed that a definition be included to qualify and distinguish not for profit organisations as different from other “corporates”.

GENERAL OBSERVATIONS AND CONCERNS

10. Many patent renewals are paid on standard instruction. The regulations proposed for implementation of the new fee structure require new forms (P27 and D19) to be completed before renewal fees are paid, or at the time it is paid, which would require a signature from all applicants prior to executing a standing instruction, or else to be deemed a corporate. This has quite an administrative consequence for firms and corporates, and we are of the view that, unless these uncertainties are addressed before

implementation, most applicants won't even bother to try to figure out if they comply for lower fees, and will just pay the higher fees to ensure no rights are jeopardized.

11. The same concern applies to filings: it is not uncommon for foreign agents or even local clients to provide filing instructions very close to the deadline. Obtaining confirmation of the determinant factors to be classified as an SMME is expected to be extremely cumbersome, which will also presumably lead to the fall-back position of merely paying the corporate fees in order to avoid penalty fees or a loss of rights.
12. Apart from the significant concerns regarding entity classification raised above, our members have raised certain other concerns and observations:
 - 12.1. Both the amended P1 and the D1 indicate a space to provide entity status, and it is therefore assumed that this is a requirement from the applicant. The new P5 and D5 even provide for late lodgment of these respective forms. However, the regulations have not been amended (see regulation 22) to make it mandatory to lodge this form. There is no indication as to when it can be late lodged and hence the regulations other than in the schedule and in regulations 2 to 7 make no mention of the new forms;
 - 12.2. It is accepted that different tariffs will apply for SMME and Corporations and that there will be corresponding forms that need to be tendered at the time of renewal for this purpose. However, regulations 48 and 67I have not been updated to make it mandatory to file the new forms and no indication is given regarding when such forms are to be filed;
 - 12.3. Regarding the new subregulation 4A of regulation 1A (both patents & designs): does this simply confirm what we presently do when filing via CUBA – i.e. that the electronic signature we use is sufficient?;

- 12.4. It is unclear why the phrase “the Commission” is used in 4A rather than CIPC. Elsewhere “CIPRO” is being amended to “CIPC”;
- 12.5. No deadline is provided for filing the proposed P27/D19, yet the forms P5/D5 imply that late lodgement is permitted. This also applies to renewal applications – can the P27/D19 be late filed?;
- 12.6. What will be the consequence of paying as an SMME on filing, when in fact the applicant does not qualify for the lower rate? Would this constitute a material misrepresentation and result in a patent/design being liable for revocation?;
- 12.7. What will be the consequence of paying as an SMME on renewal, when in fact the owner does not qualify for the lower rate? Would that constitute non-payment with the solution being restoration?;
- 12.8. What happens if the status of an applicant/proprietor changes, such that a previously given declaration of SMME status is no longer correct? Is there an ongoing obligation on the applicant/proprietor to check that they continue to meet the definition of SMME and switch to paying at the corporate rate if they no longer qualify as an SMME? What is the consequence of a mistake in this regard;
- 12.9. It is not clear why the entity size is to be indicated on the form P8. There is no corresponding change to the D8;
- 12.10. The D10 appears unchanged and does not include a field to indicate the entity, as per the P10;
- 12.11. For both the P10 & D10 – should there not be a block to indicate that a P27/D19 is being lodged? And if this is to be late lodged, how should this be done – on a P5 or D5 as one would do for a pending application? And what would be the consequence of not lodging the P27/D19?
- 12.12. Is it necessary that the entity status be indicated on the P2/D2 as it already appears on the P1/D1/P25?;

- 12.13. Regulations 8, 22(i)(c) & 33 cited in the header of the P27 apply to the P3; and
- 12.14. the provision for an automatic annual increase of 5% going forward without consideration of other factors potentially sets a bad precedent, and is fundamentally problematic, for at least the following reasons:
- 12.14.1. a CPI determined increase would be more logical and justifiable;
 - 12.14.2. frequent adjustments potentially lead to payment of incorrect amounts; and
 - 12.14.3. will adjustments be rounded up or down to the nearest R1, or will they indicate cents in the Rand?

SUGGESTION BY SAIPL ON IMPLEMENTATION OF FEE INCREASES

13. Over and above addressing the above inconsistencies, it is suggested to implement the fee increase to new patent and design applications, and renewal fees of new patents and designs that are granted or filed after the implementation of the new fee schedule, and not to existing granted patents and designs;
14. It is proposed that the CIPC rather consider a system that introduces escalation of renewal fees that increase towards the end of a patent and design term. This approach is aligned with other patent office policies around the world; and
15. We believe it may be helpful to have a more comprehensive definition for “corporate” which could be for example, an entity that is not i) a natural person; ii) a research institution, including a university; iii) a not for profit entity, or iv) an SMME (as currently proposed, or preferably an easier definition like an entity with fewer than 100 employees).

CONCLUSION

16. Apart from its responsibilities towards the South African public, the CIPC, as custodian of South Africa's intellectual property sector, has a significant responsibility and role in how our country is perceived internationally, seeing that a significant portion of patent and design filings in South Africa emanate from foreign shores. An excessive increase in tariffs, which is not implemented rationally or accurately, may cause foreign multinationals to lose faith in the South African IP regime, and cause such entities to disinvest from our country, which is in exact contradiction to some of the objectives of the IP Policy, namely "*...fostering investment and technology diffusion*" and "*...the promotion of international best-practices in IP...*"
17. We reiterate that SAIPL is not opposed to a structured and rational increase in patent and design tariffs. However, the current approach insofar as the excessive nature of the increases, as well as the inconsistencies in the implementation will not assist in increasing (or even maintaining) stakeholder confidence, and may contribute to disillusionment with and disinvestment from South Africa.
18. We remain open to consultative processes to ensure that fee increases are implemented fairly and seamlessly, and would welcome a workshop between your office, delegates from SAIPL, other industry stakeholders and the broader public to ensure that this is achieved.
19. Thank you for your consideration.

Yours faithfully

South African Institute of Intellectual Property Law
Patent and Design Law Subcommittee

Per: Jaco Theunissen