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**Assemblies of the Member States of WIPO**

**Fifty-Sixth Series of Meetings**

**Geneva, October 3 to 11, 2016**

INFORMATION DOCUMENT FROM THE delegation of the United States of America ON THE “Review of Allocation Methodology for the Income and Budget by Union”

*Document submitted by the Delegation of the United States of America*

In a communication dated October 11, 2016, the Delegation of the United States of America requested the inclusion of “the attached document as an information document as part of the documents for agenda item 10 of the General Assemblies”.

[Annex follows]

**Agenda Item 10: Report of the Program and Budget Committee**

**Assemblies of the Member States of WIPO**

**Fifty-Sixth Series of Meetings**

**Geneva, October 3 to 11, 2016**

**Review of Allocation Methodology for the Income and Budget by Union (A/56/14)**

**Submission of the United States**

Transparent representation of the budget is important to the WIPO budget process to allow WIPO’s constituent Unions to take informed decisions relating to their respective budgets. Without a correct understanding of a Union’s expenses and income, as well as an understanding of the common expenses of the Organization, the Contracting Parties to each Union cannot take a decision as to whether the fees have been established at an appropriate level. For the Madrid Union, a less than transparent budget could lead the Madrid Union to erroneously conclude that it has a surplus, and to request distribution of that surplus to its Members.[[1]](#footnote-1) We believe that the representation of the fee-financed Unions can and should be made more fair and transparent. Furthermore, we believe that all Unions should contribute toward common expenses such as development expenses. By deliberately failing to set fees sufficient to cover their own expenses (direct and indirect), the Madrid, Hague and Lisbon Unions are not adequately funding covering common expenses of the Organization.

Each one of WIPO’s four existing registration systems, namely the PCT,[[2]](#footnote-2),Madrid,[[3]](#footnote-3) Hague[[4]](#footnote-4) and Lisbon[[5]](#footnote-5) systems, have a governing treaty currently in force[[6]](#footnote-6) that provides guidance for how to set fees by specifying five key elements:

1. The Union shall have a budget;
2. The budget shall include the income and expense of the Union and its contribution to common expenses;
3. The share of the Union in such common expenses shall be in proportion to the interest the Union has in them;
4. The fees shall be so fixed that the revenue should under normal circumstances, be sufficient to cover the expenses of the International Bureau, and
5. The budget is coordinated with other Unions.

For reference purposes, excerpts from these treaties are included in Annex I.

During the 2016 WIPO Assemblies, the Lisbon Union has continued to reference WIPO’s unitary contribution system, suggesting that this is somehow relevant to the budget of the Lisbon Union. This is clearly not the case. The Director General and the Secretariat have repeatedly explained that the unitary contribution system does not apply to fee-financed Unions, including the Lisbon Agreement. See, for example, “Options for the Financial Sustainability of the Lisbon Union,” WO/PBC/24/16 Rev., paragraph 16, which states:

16. Were Member States to agree to invoke the Lisbon Agreement’s provisions to assess and collect contributions, it is important to note the distinction between “contributions of the countries of the [Lisbon] Union” under Article 11(3)(v) of the Lisbon Agreement and the unitary contribution system currently in place. It should be recalled that under the unitary contribution system, each State party to more than one of the WIPO Convention and the treaties administered by WIPO pays only a single contribution, regardless of the number of such treaties to which it is party, instead of paying separate contributions in respect of each (contribution financed) treaty to which it is party. As the Lisbon Union is not a contribution financed Union, but rather a fee-financed Union, Member States would therefore need to be aware that the assessment and collection of contributions from Lisbon Union members under Article 11 is an issue separate from and unrelated to contributions assessed under the unitary contribution system.

Until such time as WIPO’s fee-financed Union treaties are amended, the provisions of their current treaties remain in force and govern their finances. Furthermore, WIPO’s Financial Regulations require that the Organization’s proposed Program and Budget covers estimates for income and expenditure in a consolidated form for the Organization as well as separately for each Union.[[7]](#footnote-7)

Regardless of whether the budget is proposed under the language of the fee-financed treaties as they are currently in force or as they were proposed to be amended in 2003, fee-financed treaties should have their income and expenses represented in a fair and transparent manner.

For the 2016/17 *Approved Program and Budget*, the Secretariat suggested the following allocation:



This allocation attributes income to the Lisbon and Hague Unions for miscellaneous income that they did not earn. This appears unfair and unrelated to the “capacity to pay” principle.

In WO/PBC/25/16, the Secretariat suggested alternative methodologies. In “Scenario 2” the Secretariat suggested allocating miscellaneous income based upon the Union’s relative support for the Programs generating the income. Clearly, this proposal is fairer than the current methodology of allocating income to a Union that did nothing to contribute toward the program generating the revenue. In addition, in PBC 25, the Secretariat prepared four documents which allow for further transparency in the Program and Budget. These documents are attached as Annex II. “PBC Scenario 1 by Program and Union (document WO/PBC/25/16)” and “PBC Scenario 2 by Program and Union (document WO/PBC/25/16)” provided an enhanced understanding as to the origin of expenses in the corresponding two new scenarios proposed in WO/PBC/25/16. “Scenario 3 as Requested by Chair, PBC 25, September 1, 2016” and “Scenario 4 as Requested by Chair, PBC 25, September 1, 2016” provide additional transparency including allocating indirect expenses proportional to their direct expenses. We believe the allocations of scenarios 3 and 4 would be fairer than the current allocation of income to the Unions.

The allocation of the Program and Budget for 2016/17 results in the PCT paying almost all of the indirect or common expenses of the organization, the Madrid Union paying very little and the Hague and Lisbon Union paying none. We question whether this is fair.

With the methodology as shown in Scenario 3 and 4, only the PCT would generate enough income to cover its fair share of the common expenses. Clearly, by raising fees, the Madrid, Hague and Lisbon Union could cover their expenses (a fair share of both direct and indirect expenses) and contribute toward the shared expenses of the Organization. With each Union becoming more self-sufficient and supporting the Organization as a whole, the resources available for development and all WIPO activities could be increased.

The allocation of income and expenses can and should be distributed more fairly across the Unions, to further support the activities of the Organization. We look forward to discussing this issue further with Members of the fee-financed Unions, the Program and Budget Committee, and all WIPO Unions.

**Annex I**

**Finances Articles from Select Treaties**

**Patent Cooperation Treaty (PCT) (as modified on October 3, 2001**

Article 57 (in part)

Finances

(1)(a) The Union shall have a budget.

(b) The budget of the Union shall include the income and expenses proper to the Union and its contribution to the budget of expenses common to the Unions administered by the Organization.

(c) Expenses not attributable exclusively to the Union but also to one or more other Unions administered by the Organization shall be considered as expenses common to the Unions. The share of the Union in such common expenses shall be in proportion to the interest the Union has in them.

(2) The budget of the Union shall be established with due regard to the requirements of coordination with the budgets of the other Unions administered by the Organization.

(3) Subject to the provisions of paragraph (5), the budget of the Union shall be financed from the following sources:

(i) fees and charges due for services rendered by the International Bureau in relation to the Union;

(ii) sale of, or royalties on, the publications of the International Bureau concerning the Union;

(iii) gifts, bequests, and subventions;

(iv) rents, interests, and other miscellaneous income.

(4) The amounts of fees and charges due to the International Bureau and the prices of its publications shall be so fixed that they should, under normal circumstances, be sufficient to cover all the expenses of the International Bureau connected with the administration of this Treaty.

(5)(a) Should any financial year close with a deficit, the Contracting States shall, subject to the provisions of subparagraphs (b) and (c), pay contributions to cover such deficit?

(b) The amount of the contribution of each Contracting State shall be decided by the Assembly with due regard to the number of international applications which has emanated from each of them in the relevant year.

(c) If other means of provisionally covering any deficit or any part thereof are secured, the Assembly may decide that such deficit be carried forward and that the Contracting States should not be asked to pay contributions.

(d) If the financial situation of the Union so permits, the Assembly may decide that any contributions paid under subparagraph (a) be reimbursed to the Contracting States which have paid them.

(e) A Contracting State which has not paid, within two years of the due date as established by the Assembly, its contribution under subparagraph (b) may not exercise its right to vote in any of the organs of the Union. However, any organ of the Union may allow such a State to continue to exercise its right to vote in that organ so long as it is satisfied that the delay in payment is due to exceptional and unavoidable circumstances.

(6) If the budget is not adopted before the beginning of a new financial period, it shall be at the same level as the budget of the previous year, as provided in the financial regulations.

**Madrid Agreement Concerning the International Registration of Marks**

Article 12

Finances

(1)(a) The Special Union shall have a budget.

(b) The budget of the Special Union shall include the income and expenses proper to the Special Union, its contribution to the budget of expenses common to the Unions, and, where applicable, the sum made available to the budget of the Conference of the Organization.

(c) Expenses not attributable exclusively to the Special Union but also to one or more other Unions administered by the Organization shall be considered as expenses common to the Unions. The share of the Special Union in such common expenses shall be in proportion to the interest the Special Union has in them.

(2) The budget of the Special Union shall be established with due regard to the requirements of coordination with the budgets of the other Unions administered by the Organization.

(3) The budget of the Special Union shall be financed from the following sources:

(i) international registration fees and other fees and charges due for other services rendered by the International Bureau in relation to the Special Union;

(ii) sale of, or royalties on, the publications of the International Bureau concerning the Special Union;

(iii) gifts, bequests, and subventions;

(iv) rents, interests, and other miscellaneous income.

(4)(a) The amounts of the fees referred to in Article 8(2) and other fees relating to international registration shall be fixed by the Assembly on the proposal of the Director General.

(b) The amounts of such fees shall be so fixed that the revenues of the Special Union from fees, other than the supplementary and complementary fees referred to in Article 8(2)(b) and (c), and other sources shall be at least sufficient to cover the expenses of the International Bureau concerning the Special Union.

(c) If the budget is not adopted before the beginning of a new financial period, it shall be at the same level as the budget of the previous year, as provided in the financial regulations.

(5) Subject to the provisions of paragraph (4)(a), the amount of fees and charges due for other services rendered by the International Bureau in relation to the Special Union shall be established, and shall be reported to the Assembly, by the Director General.”

**Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks**

Article 12

Finances

As far as Contracting Parties are concerned, the finances of the Union shall be governed by the same provisions as those contained in Article 12 of the Madrid (Stockholm) Agreement, provided that any reference to Article 8 of the said Agreement shall be deemed to be a reference to Article 8 of this Protocol. Furthermore, for the purposes of Article 12(6) (b) of the said Agreement, Contracting Organizations shall, subject to a unanimous decision to the contrary by the Assembly, be considered to belong to contribution class I (one) under the Paris Convention for the Protection of Industrial Property.

**Hague Agreement Concerning the International Registration of Industrial Designs (Geneva Act (1999))**

Article 23 (in part)

Finances

(1) [Budget]

(a) The Union shall have a budget.

(b) The budget of the Union shall include the income and expenses proper to the Union and its contribution to the budget of expenses common to the Unions administered by the Organization.

(c) Expenses not attributable exclusively to the Union but also to one or more other Unions administered by the Organization shall be considered to be expenses common to the Unions. The share of the Union in such common expenses shall be in proportion to the interest the Union has in them.

(2) [Coordination with Budgets of Other Unions] The budget of the Union shall be established with due regard to the requirements of coordination with the budgets of the other Unions administered by the Organization.

(3) [Sources of Financing of the Budget] The budget of the Union shall be financed from the following sources:

(i) fees relating to international registrations;

(ii) charges due for other services rendered by the International Bureau in relation to the Union;

(iii) sale of, or royalties on, the publications of the International Bureau concerning the Union;

(iv) gifts, bequests and subventions;

(v) rents, interests and other miscellaneous income.

(4) [Fixing of Fees and Charges; Level of the Budget]

(a) The amounts of the fees referred to in paragraph (3) (i) shall be fixed by the Assembly on the proposal of the Director General. Charges referred to in paragraph 3(ii) shall be established by the Director General and shall be provisionally applied subject to approval by the Assembly at its next session.

(b) The amounts of the fees referred to in paragraph (3) (i) shall be so fixed that the revenues of the Union from fees and other sources shall be at least sufficient to cover all the expenses of the International Bureau concerning the Union.

(c) If the budget is not adopted before the beginning of a new financial period, it shall be at the same level as the budget of the previous year, as provided in the financial regulations.”

**Lisbon Agreement for the Protection of Appellations of Origin and their International Registration**

Article 11 (in part)

Finances

(1)(a) The Special Union shall have a budget.

(b) The budget of the Special Union shall include the income and expenses specific to the Special Union, its contribution to the budget of expenses common to the Unions, and, where applicable, the sum made available to the budget of the Conference of the Organization.

(c) Expenses not attributable exclusively to the Special Union but also to one or more other Unions administered by the Organization shall be considered as expenses common to the Unions. The share of the Special Union in such common expenses shall be in proportion to the interest the Special Union has in them.

(2) The budget of the Special Union shall be established with due regard to the requirements of coordination with the budgets of the other Unions administered by the Organization.

(3) The budget of the Special Union shall be financed from the following sources:

(i) international registration fees collected under Article 7(2) and fees and charges due for other services rendered by the International Bureau in relation to the Special Union;

(ii) proceeds from the sale of, or royalties on, the publications of the International Bureau concerning the Special Union;

(iii) gifts, bequests, and subventions;

(iv) rents, interest, and other miscellaneous income;

(v) contributions of the countries of the Special Union, if and to the extent to which receipts from the sources indicated in items (i) to (iv) do not suffice to cover the expenses of the Special Union.

(4)(a) The amount of the fee referred to in Article 7(2) shall be fixed by the Assembly on the proposal of the Director General.

(b) The amount of the said fee shall be so fixed that the revenue of the Special Union should, under normal circumstances, be sufficient to cover the expenses of the International Bureau for maintaining the international registration service, without requiring payment of the contributions referred to in paragraph (3)(v), above.

(5)(a) For the purpose of establishing its contribution referred to in paragraph (3) (v), each country of the Special Union shall belong to the same class as it belongs to in the Paris Union for the Protection of Industrial Property, and shall pay its annual contributions on the basis of the same number of units as is fixed for that class in that Union.

(b) The annual contribution of each country of the Special Union shall be an amount in the same proportion to the total sum to be contributed to the annual budget of the Special Union by all countries as the number of the units of the class to which it belongs is to the total of the units of all contributing countries.

(c) The date on which contributions are to be paid shall be fixed by the Assembly.

(d) A country which is in arrears in the payment of its contributions may not exercise its right to vote in any of the organs of the Special Union if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceding two full years. However, such a country may be allowed to continue to exercise its right to vote in that organ if, and as long as, the latter is satisfied that the delay in payment is due to exceptional and unavoidable circumstances.

(e) If the budget is not adopted before the beginning of a new financial period, it shall be at the same level as the budget of the previous year, as provided in the financial regulations.

(6) Subject to the provisions of paragraph (4)(a), the amount of fees and charges due for other services rendered by the International Bureau in relation to the Special Union shall be established, and shall be reported to the Assembly, by the Director General.

**For comparison, a treaty not administered by WIPO, because the Membership of the Organization has not consented to assume the responsibilities of that treaty**

**Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications**

Article 24 (in part)

Finances

(1) [Budget] The income and expenses of the Special Union shall be reflected in the budget of the Organization in a fair and transparent manner.

(2) [Sources of Financing of the Budget] The income of the Special Union shall be derived from the following sources:

(i) fees collected under Article 7(1) and (2);

(ii) proceeds from the sale of, or royalties on, the publications of the International Bureau;

(iii) gifts, bequests, and subventions;

(iv) rent, investment revenue, and other, including miscellaneous, income;

(v) special contributions of the Contracting Parties or any alternative source derived from the Contracting Parties or beneficiaries, or both, if and to the extent to which receipts from the sources indicated in items (i) to (iv) do not suffice to cover the expenses, as decided by the Assembly.

(3) [Fixing of Fees; Level of the Budget]

(a) The amounts of the fees referred to in paragraph (2) shall be fixed by the Assembly on the proposal of the Director General and shall be so fixed that, together with the income derived from other sources under paragraph (2), the revenue of the Special Union should, under normal circumstances, be sufficient to cover the expenses of the International Bureau for maintaining the international registration service.

(b) If the Program and Budget of the Organization is not adopted before the beginning of a new financial period, the authorization to the Director General to incur obligations and make payments shall be at the same level as it was in the previous financial period.

(4) [Establishing the Special Contributions Referred to in Paragraph (2)(v)] For the purpose of establishing its contribution, each Contracting Party shall belong to the same class as it belongs to in the context of the Paris Convention or, if it is not a Contracting Party of the Paris Convention, as it would belong to if it were a Contracting Party of the Paris Convention. Intergovernmental organizations shall be considered to belong to contribution class I (one), unless otherwise unanimously decided by the Assembly. The contribution shall be partially weighted according to the number of registrations originating in the Contracting Party, as decided by the Assembly.

**Annex II**









[End of Annex and of document]

1. See “Madrid Union Surplus for the 2014/15 Biennium,” [MM/A/50/INF/1](http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=352836), which stated that for 2014/2015, the Madrid Union had a surplus of 8.15 million CHF, even though it did not contribute an equal percentage of the common expenses of the Organization as the PCT Union. [↑](#footnote-ref-1)
2. Patent Cooperation Treaty, Article 57(2) [↑](#footnote-ref-2)
3. Madrid Agreement Concerning the International Registration of Marks, Article 12(2) [↑](#footnote-ref-3)
4. Hague Agreement Concerning the International Registration of Industrial Designs (Geneva Act (1999)) [↑](#footnote-ref-4)
5. Lisbon Agreement for the Protection of Appellations of Origin and their International Registration [↑](#footnote-ref-5)
6. In 2015, the United States submitted a document to the General Assembly, **“**Understanding of the United States of America of the Unitary Contribution System and the Unitary Budget as they relate to the Lisbon Agreement,” A/55/INF/10. This document addressed amendments to certain treaties which have not yet been made and explained that:

“In 2003, the WIPO Assemblies agreed to amend the WIPO Convention and all WIPO treaties to delete a provision referring to a ‘separate budget’ for ‘the expenses common to the Unions, and the budget of the Conference,’ replacing it with the text ‘the income and expenses of the Union[s] shall be reflected in the budget of the Organization in a fair and transparent manner.’ This was intended to implement the Unitary Contribution System for the Contribution-financed unions and consequently, has the practical effect of creating a Unitary Budget for the contribution-financed unions.6 However, these amendments did not create a Unitary Budget concept for all unions and agreements; it merely created a single budget document for all of the unions, with the non-Contribution financed Unions and the Contribution-financed Unions budgets included within the document.” [↑](#footnote-ref-6)
7. See WIPO Financial Rules and Regulations, Rule 2.3. [↑](#footnote-ref-7)