

WIPO



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SHORT AND LONG-TERM FINANCIAL SITUATION OF WIPO

Document prepared by the Secretariat

I. INTRODUCTION AND BACKGROUND

1. WIPO's income is based on revenues from services rendered to the private sector and Member States' contributions. Over time, the relative share of the latter has decreased and, in the 2002-2003 biennium, contributions from Member States amounted to only 7.3 per cent of total income. While this dynamic income profile singles WIPO out as the only market-driven agency of the United Nations system, it also exposes the Organization to the risk of income fluctuations. In absolute terms, WIPO's projected income for the 2004-2005 biennium is higher than the actual income it received in the 2002-2003 biennium, but lower than the estimated income budgeted for in the 2004-2005 Program and Budget based upon which estimated income the expenditure for the 2004-2005 biennium was approved by Member States. This has created an unexpected income shortfall.

2. In September 2004, the Secretariat had proposed, as one of the measures to address this income shortfall, a 12 per cent readjustment in the PCT international filing fee, effective January 1, 2005 (document PCT/A/33/5). The view of the Secretariat had been that, in light of an estimated deficit of 40 million Swiss francs and notwithstanding cost-saving measures enabling a projected 16 per cent reduction in expenditure, if income were not adjusted in the course of the biennium, the level of reserves would have fallen below the target level established by Member States¹. The Secretariat had also expressed the view that such a depletion of reserves might create risks (document PCT/A/33/7, paragraphs 64 to 70). Following discussions and informal consultations, Member States requested the Secretariat to

convene a session of the Program and Budget Committee as early as possible, in order to analyze, *inter alia*, any readjustment of PCT fees. It was also decided that an extraordinary session of the PCT Assembly should be convened if it were determined that consideration of any proposal on the adjustment of PCT fees was deemed necessary. Note was also taken of the concerns expressed regarding the possible impact of any delay in decision making on such an adjustment on the implementation of WIPO's program activities, in particular, its cooperation for development programs (document PCT/A/33/7, paragraph 74 and document A/40/7, paragraph 174).

3. This document responds to the Member States' request by providing an updated review of WIPO's financial situation in light of the income shortfall. Its structure is as follows: Chapter II describes the income shortfall that has emerged for the 2004-2005 biennium; Chapter III relates how the Secretariat is addressing the income shortfall in the short-term, with emphasis on cost-saving measures including in relation to staff costs; Chapter IV provides an update of the financial scenario for 2004-2005; Chapter V gives preliminary indications on the financial scenario for the medium-term (2006-2009); conclusions are given in Chapter VI.

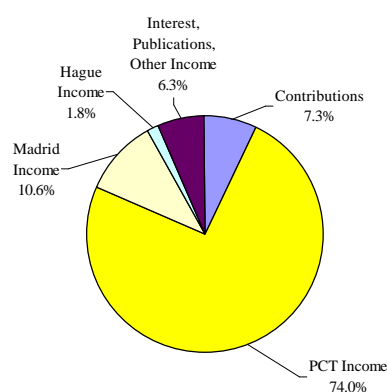
II. THE EMERGING INCOME SHORTFALL FOR 2004-2005

4. Table 1 and Chart 1 below show the structure of WIPO's income (by source of income) in real terms in 2002-2003. The main sources of WIPO's income are: Member States' contributions; fees payable under the Patent Cooperation Treaty (PCT) system; fees payable under the Madrid system for the international registration of marks; fees payable under the Hague system for the international registration of industrial designs; fees payable for services provided by the WIPO Arbitration and Mediation Center; revenue from the sale of publications; bank interest.

Table 1. Actual Income 2002-2003
(in millions of Swiss francs)

	Total	
	Amount	% of Total
Contributions	34.5	7.3
Fees		
PCT System	348.0	74.0
Madrid System	49.7	10.6
Hague System	8.4	1.8
Total, Fees	406.1	86.3
Interest	13.1	2.8
Publications	7.0	1.5
Other Income	9.6	2.0
TOTAL	470.3	100.0

Chart 1. Share of Actual Income
2002-2003 by Source



5. Table 2, below, shows the difference between the income which has been budgeted for the 2004-2005 biennium and the actual income the Organization expects to receive by the end of that biennium. The difference between the two amounts is what is referred to as "income shortfall". Column A shows the budgeted income for 2004-2005, by source of income (document WO/PBC/7/2). Column B shows the Secretariat's current projections of the shortfall. Column C shows income projections as of September 2004. As shown below,

based on these projections, the income shortfall for the 2004-2005 biennium is 83.0 million Swiss francs (or 14.1 per cent) as compared to approved budget levels. As illustrated, 86 per cent of this total income shortfall is due to the income shortfall from PCT fees.

Table 2. Estimated Income Shortfall for 2004-2005
(in millions of Swiss francs)

	Approved Budget A	Estimate Dec-04 B	Estimate Sep-04 C	Income Shortfall	
				Amount D = B - A	% D/A
Contributions	34.5	34.5	34.5	--	--
Fees					
PCT System	460.3	388.8	382.4	(71.5)	(15.5)
Madrid System	58.4	58.8	57.8	0.4	0.7
Hague System	10.4	5.3	6.1	(5.1)	(49.0)
<i>Total, Fees</i>	<i>529.1</i>	<i>452.9</i>	<i>446.3</i>	<i>(76.2)</i>	<i>(14.4)</i>
Interest	5.2	6.8	5.2	1.6	30.8
Publications	10.0	4.0	9.0	(6.0)	(60.0)
Other Income	9.4	7.0	5.0	(2.4)	(25.5)
TOTAL	588.2	505.2	500.0	(83.0)	(14.1)

PCT Income

6. Actual income from PCT fees in 2002-2003 was 348 million Swiss francs. This represented 74 per cent of WIPO's total income in that biennium (please see Chart 1, above). The approved 2004-2005 Program and Budget was based on a budgeted PCT income of 460.3 million Swiss francs, and a total of 273,500 PCT applications. As shown in Table 2, above, it is currently estimated that PCT income for 2004-2005 will be 388.8 million Swiss francs, or an income shortfall of 71.5 million Swiss francs for PCT alone. The main reason for this shortfall is that the number of PCT applications which is now expected to be received by the International Bureau in the 2004-2005 biennium is 244,000, or a total of 29,500 applications less than what was projected in the 2004-2005 Program and Budget.

Madrid Income

7. Actual income from Madrid fees in 2002-2003 was 49.7 million Swiss francs. This represented 10.6 per cent of WIPO's total income (please see also Chart 1, above). With an estimated income of 58.8 million Swiss francs in 2004-2005, Madrid fees will continue to be WIPO's second largest source of income and, current Madrid income projections for this biennium show a minor income gain of 0.4 million Swiss francs compared to the budgeted level in the 2004-2005 Program and Budget.

Hague Income

8. With an actual income of 8.4 million Swiss francs, Hague fees represented 1.8 per cent of WIPO's total income in 2002-2003 (please see Chart 1, above). In the current biennium, the budgeted income of 10.4 million Swiss francs is not likely to be realized. The latest projections forecast Hague fee income at 5.3 million Swiss francs. Preliminary analysis suggests that the main reason for this is that the introduction of the European Union (EU)

Community Design has had a greater impact on the use of the Hague system than anticipated in the Program and Budget for 2004-2005.

Member States' Contributions

9. Contributions from Member States are the third largest source of WIPO's income, contributing 7.3 per cent of the total income in 2002-2003 (please see Chart 1, above). Based on the latest information, this source of income is in line with the budgeted level for 2004-2005 (34.5 million Swiss francs).

Other Sources of Income

10. The remainder of WIPO's income derives mainly from revenue from publications, fees received for the services provided by the WIPO Arbitration and Mediation Center, and interest on bank accounts. Latest projections on these sources of income are shown in Table 2².

III. ADDRESSING THE INCOME SHORTFALL FOR THE 2004-2005 BIENNIUM

11. As anticipated in the informal consultations held in September 2004, the Secretariat has addressed the income shortfall described above by:

- (a) postponing the new construction; and
- (b) reducing operational expenditure through cost-saving measures.

12. The anticipated impact of these two combined actions is shown in Annex I (Approved Budget for 2004-2005 and Estimated Expenditures for 2004-2005, by Main Program), and Annex II (same comparison by Object of Expenditure). Details on each of these two actions are provided in the following paragraphs.

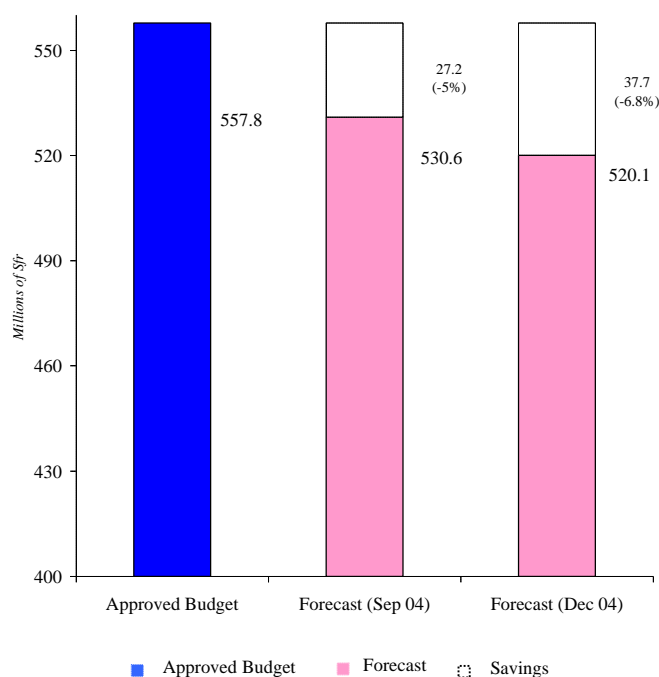
(a) Postponement of the new construction

13. As shown in Annex I, an amount of 81.0 million Swiss francs had been approved in the 2004-2005 budget for the new construction. Following the postponement of the project, it is estimated that total expenditure for the new construction in 2004-2005 will be 8.1 million Swiss francs. This represents a reduction in expenditure of 72.9 million Swiss francs, or 89.9 per cent, as compared to the budgeted amount. The level of resources expected to be required for the new construction project in the current biennium (8.1 million Swiss francs) covers: previous commitments, the cost of excavation and other preparatory works, and architect's and engineer's honoraria for the study on alternative technical options for the new administrative building. Revised technical and financial options for the new construction project are outlined in document WO/PBC/IM/05/3.

(b) Reduction of operational expenditure

14. Based on current (December 2004) projections, operational expenditure in 2004-2005 will be reduced by 37.7 million Swiss francs (or 6.8 per cent) as compared to the originally approved budget (557.8 million Swiss francs). As shown in Chart 2, below, this reduction is greater than had been forecast in September 2004.

Chart 2. Comparison of Operational Expenditure Forecasts
2004-2005



15. This reduction is made possible by savings in personnel costs, savings in office accommodation costs, savings in information technology (IT) costs, and other savings.

(i) Savings in Personnel Costs

16. There are four main categories of personnel at WIPO: (i) employees holding posts under the regular budget (in the General Service (GS), Professional (P) and Higher categories, plus Director General, Deputy Directors General (DDG) and Assistant Directors General (ADG) levels); (ii) headquarters consultants; (iii) employees holding short-term contracts; and (iv) holders of Special Service Agreements (SSAs). Since early 2004, a restrictive policy has been applied to each of these categories. The projected impact of this policy is described below.

Regular Budget Posts

17. In September 2003, Member States had approved a total of 1,004 regular posts for the 2004-2005 biennium (WO/PBC/7/2, Table 6, page 22). Of those 1,004 posts, 52 had been authorized on the basis of the flexibility clause (27 in 2004, and 25 in 2005). This is the mechanism established by Member States whereby the number of regular budget posts can be varied upwards or downwards, in accordance with certain formulas, to reflect unbudgeted variations in the level of PCT, Madrid and Hague applications.

18. For PCT, given the lower-than-budgeted level of PCT applications expected in the current biennium, 35 posts will be abolished. For the Hague, about five posts will be

abolished to reflect the lower-than-budgeted level of applications. These and other relevant adjustments (Madrid) will be reflected in the Revised Budget for 2004-2005³.

19. Of the posts remaining after these adjustments, it is important to stress that as of December 31, 2004, only 905 were occupied⁴. As a result, out of a total of 304.7 million Swiss francs budgeted in 2004-2005 for posts, only 287.2 million Swiss francs are expected to be spent, representing a saving of 17.5 million Swiss francs or 5.7 per cent in posts, as shown in Annex II.

20. The Secretariat intends to continue its policy of very selective allotment of budgeted posts and of freezing of vacant posts resulting from resignations or retirements in 2005.

21. As particularly concerns the PCT, it should be stressed that in the current biennium the additional workload, as compared to 2003, will be mainly absorbed through efficiency gains. In fact, the level of staff employed in PCT as of December 31, 2004 (around 500 persons), was the same as it was in the year 2000.

22. As concerns the Madrid system, it should be noted that eight and a half new posts had been approved, if and when the Spanish language were to become an official working language of the Madrid system (documents WO/PBC/7/2, paragraph 105, and MM/A/35/1 and 2). Following the introduction of the Spanish language, effective April 1, 2004, the Secretariat has used internal redeployment of staff and short-term translators to meet the need for translation into Spanish, instead of recruiting new staff members.

IT and Other Consultants

23. On December 31, 2003, WIPO was employing a total of 80 consultants. A significant number of them were IT experts employed for specific IT projects. By the end of 2004, the total number of consultants was reduced to 52. By the end of 2005, it is expected that this will be further reduced to 40 (a headcount reduction of 50 per cent, for a reduction of about 1.5 million Swiss francs or 9.0 per cent of the originally approved budget for consultants). These reductions were made possible by the completion of IT projects. Additional reductions will have also been made possible by consolidation of activities and internal redeployment of staff.

Holders of short-term contracts

24. On December 31, 2003, a total of 329 persons held short-term contracts with WIPO. They were secretarial and clerical support personnel, short-term translators (TTs) and holders of Special Labor Contracts (SLCs). Of this total number of short-term contract holders, 156 were employed in the PCT. By the end of 2004, the total number of short-term employees was 295, and by the end of 2005, it is intended to be further reduced. Actual expenditure for short-term employees in 2002-2003 was 56.1 million Swiss francs. Current projections for expenditure on short-term employees in 2004-2005 is 48.2 million Swiss francs, or a reduction in expenditure of 7.9 million Swiss francs (about 14 per cent) compared to the previous biennium⁵.

Holders of Special Service Agreements (SSAs)

25. On December 31, 2003, a total of 35 persons held Special Service Agreements (SSAs) with WIPO. They were mainly experts in technical assistance projects and PCT translators. By the end of 2004, the total number of persons holding SSAs was 29, and by the end of 2005, it is intended to be further reduced. Actual expenditure for SSAs in 2002-2003 was 11.7 million Swiss francs. Current projections for expenditure on SSAs in 2004-2005 is four million Swiss francs, or a reduction in expenditure of 7.7 million Swiss francs (about 65.8 per cent) compared to the previous biennium.

26. In conclusion, from a total headcount of 1,383 persons on December 31, 2003, there was a headcount of 1,322 employees on December 31, 2004 (a reduction of 4.4 per cent). This headcount reduction was made possible by the following personnel management measures:

- Restrictive allotment of authorized (budgeted) posts
- A virtual freeze on recruitment (the few recruitments made in 2004 were predominantly for special language and technical requirements)
- Posts vacated through resignation or retirement are filled through redeployment to the maximum possible extent
- Reduction in the number of consultants
- Reduction in the number of holders of short-term contracts.

27. These measures will be maintained in 2005. They apply to all Main Programs.

(ii) Savings in Office Accommodation Costs

28. A review of existing rental contracts was carried out in early 2004 with a view to reducing expenditure for office rental and related maintenance costs through a progressive consolidation of office accommodation. This was possible following completion of the ex-WMO building which is now occupied by PCT staff. Since most PCT staff had previously been housed in the Procter and Gamble building adjacent to WIPO, their move enabled WIPO staff occupying rented offices in several scattered locations to move to Procter and Gamble and thereby benefit from accommodation in one, central location. Lead-time was, however, needed to renegotiate or terminate on-going rental contracts. As a result, the following premises have either been vacated, or are scheduled to be vacated soon, for a total of 373 work places and an estimated saving of over three million Swiss francs in the biennium, also taking into account savings generated by the discontinuation of the provision of cafeteria service in the Union Carbide and Chambésy buildings, and reduced internal communication and transportation costs. These savings will be reflected in the revised budget for 2004-2005 of Main Program 12 (Resources Management).

<i>Buildings</i>	<i>Number of workspaces</i>	<i>Date of Vacation</i>
1. Sogival	30	March 31, 2004
2. IBM	15	March 31, 2004
3. Budé	40	July 31, 2004
4. Union Carbide	1 st part: 20	March 31, 2004
	2 nd part: 73	June 30, 2004
	3 rd part: 35	September 30, 2004
	4 th part: 42	March 31, 2005
5. Casai	62	April 30, 2005
6. Chambésy	56	January 31, 2005

(iii) Savings in IT Costs

29. The approved budget for Main Program 13 (Information Technology) for 2004-2005 is 87.9 million Swiss francs. The current projected expenditure for this program for the biennium is 70.0 million Swiss francs. This is a reduction of 17.9 million Swiss francs (20.4 per cent). This reduction is made possible by: scaling down the WIPONET project, through termination of the contract with the original subcontractor and outsourcing the relevant tasks to the United Nations International Computing Center (UNICC); transition of PCT-SAFE and CLAIMS projects into the production support phase; substantial reduction in staff resources; suspension of IT training services; postponing any new investment in IT infrastructure (PCs, printers, servers and software) and any new system development. It should be noted that the last two cost-saving measures in this list are not sustainable in the medium-term. These savings will be reflected in the revised budget for 2004-2005 of Main Program 13.

(iv) Other Savings

30. Actual expenditure for staff missions in the 2002-2003 biennium was 11.1 million Swiss francs. The approved budget for missions in 2004-2005 is 13.5 million Swiss francs. Current projections for expenditure in this area in 2004-2005 is 7.5 million Swiss francs. This is a reduction of six million Swiss francs, or 44 per cent, as compared with the approved budget for 2004-2005, and a reduction of 3.6 million Swiss francs, or 32 per cent, when compared to actual expenditure in 2002-2003. This is achieved by an increased use of negotiated airfares and low-cost airlines. These savings are distributed across Main Programs 01, 02, 03, 04, 05, 06, 07, 08, 09, 10 and 11, and will be reflected in the revised budget for 2004-2005 of these Main Programs.

31. In 2002-2003, WIPO spent 14.2 million Swiss francs for translation services. To reduce these translation costs, while maintaining high quality standards, a thorough review of translation policies and practices has been started. An international tender for translation services in all WIPO working languages will be launched in 2005, with a view to entering into new arrangements by the start of the 2006-2007 biennium. Also, instead of continuing to hire full-time translators, WIPO will outsource a higher proportion of work to free-lance translators in 2005. This is expected to generate savings of the order of 0.8 million Swiss francs in addition to reducing needs for secretarial support and office accommodation. These savings will be reflected in the revised budget for 2004-2005 of Sub-Program 12.3 (Conference, Languages and Printing Services).

32. Other savings are being made possible by increased partnership arrangements with academic institutions, intergovernmental organizations and governments particularly in the implementation of activities under Main Programs 01, 02, 03, 04, 05, 06, 07, 08, 09, 10

and 11. These savings will be reflected in the revised budget for 2004-2005 of these Main Programs.

33. Some of the savings described in paragraphs 16 to 32, above, are of a structural nature and as such may be sustainable in the medium-term.

IV. UPDATE OF THE FINANCIAL SCENARIO FOR 2004-2005 (SHORT-TERM)

34. Table 3, below, shows the financial scenario for 2004-2005 (income, expenditure, deficit/surplus, reserves and reserves target) based on the latest projections. Approved budget levels are shown in Column A and the September 2004 estimates are shown in Column B. Latest projections (December 2004) are shown in Column C. The same is shown in Chart 3, below.

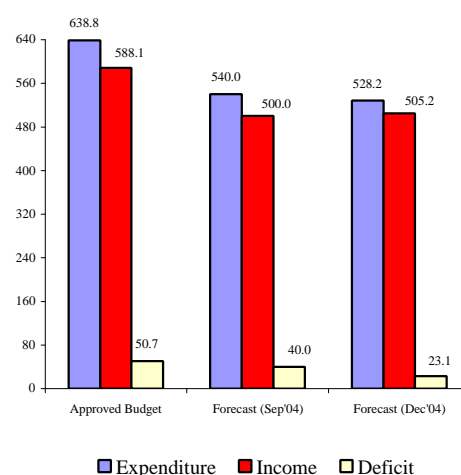
Table 3. Financial Scenario
2004-2005
(in thousands of Swiss francs)

	Approved Budget A	Estimates (Sep 04) B	Estimates (Dec 04) C
A. Income	588.2	500.0	505.2
B. Expenditure	638.8	540.0	528.2
Surplus/(Deficit), A-B	(50.7)	(40.0)	(23.0)
C. RWCF ^a	42.4 ^b	75.5	92.5
D. RWCF Target	115.2	97.2	95.1
E. Balance (D-C)	(72.8)	(21.7)	(2.6)

^a Reserves and Working Capital Fund

^b This level of reserve had been approved as a temporary situation, pending the implementation of the new construction project, on the assumption that the project would be fully funded by reserves.

Chart 3. Financial Scenario
2004-2005



35. Since the holding of informal consultations in September 2004, two new developments have taken place.

36. Firstly, during the second half of the year, a major PCT country has transmitted to the International Bureau a backlog of some 5,000 PCT applications. This has produced an unanticipated increase in PCT income for 2004. As a consequence, the overall WIPO income forecast for 2004-2005 has increased, from 500 million Swiss francs in September 2004, to 505.2 million Swiss francs in December 2004.

37. Secondly, continued budgetary discipline has permitted the Secretariat to identify savings in operational expenditure for a projected amount of 37.7 million Swiss francs or almost seven per cent, as compared to the approved budget for 2004-2005. In September 2004, possible estimated savings were less, or 27.2 million Swiss francs, or five per cent.

38. Because of these two new developments, the deficit for the 2004-2005 biennium is now anticipated to be 23.0 million Swiss francs, instead of 40 million Swiss francs, as estimated in September 2004. This is shown in Chart 3, above. The level of resources needed to be drawn from the reserves to cover this deficit would leave a balance in reserves at the end of 2005 of

92.5 million Swiss francs. This is shown in Table 3, above. This is only marginally below the target level for reserves of 95.1 million Swiss francs established by Member States on the basis of 18 per cent of biennial expenditure.

V. PRELIMINARY FINANCIAL SCENARIO FOR 2006-2009 (MEDIUM-TERM)

39. Preliminary indications on the likely financial scenario for 2006-2009, including a breakdown of estimated income for 2006-2007, are given in Annex VI. This scenario is based on the following working hypotheses for income and expenditure, respectively, as described below.

(a) Working Hypothesis for Income

PCT Income

40. As shown in Table 4(a), below, PCT income is composed of a number of different fees. Depending on which options applicants select, different combinations of fees will apply. As shown, a new fee structure was introduced as of January 1, 2004, under the PCT Reform Process.

Table 4(a). PCT Fee Schedule in 1998-2004

PCT Fee Schedule	1998	1999	2000	2001	2002	2003	2004
Basic Fee	650	650	650	650	650	650	1400
Maximum Designation	11	10	8	6	5	5	0
Designation Fee	150	150	140	140	140	140	0
Fee for Pages over 30	15	15	15	15	15	15	15
E-filing Fee Reduction	-200	-200	-200	-200	-200	-200	-100 (Easy) -200 (PDF) -300 (XML)
RO/IB transmittal fee	100	100	100	100	100	100	100
Handling Fee	233	233	233	233	233	233	200

41. The evolution of PCT income by type of fee, in 2002 and 2003, and estimates for 2004 to 2009, are given in Table 4(b), below. It must be stressed that these estimates are updated every three months.

Table 4(b). PCT Income by Type in 2002-2009

PCT income (in millions of Sfr)	Actual		Estimates					
	2002	2003	2004	2005	2006	2007	2008	2009
Basic fee	141.04	141.17	162.65	170.55	177.91	185.27	187.13	189.00
Page fee	27.89	29.20	29.72	30.91	32.05	33.18	33.51	33.84
E-Filing reduction	-8.82	-10.27	-8.27	-10.68	-12.75	-14.79	-16.29	-18.30
Handling fee	18.54	14.62	8.45	5.55	4.15	3.32	2.65	2.12
RO/IB transmittal fee	0.55	0.62	0.67	0.77	0.84	0.91	1.00	1.09
PCT income	179.20	175.34	193.22	197.11	202.19	207.89	207.99	207.75

42. In the 1990s, demand for PCT grew at an average rate of 16.8 per cent per year. In the 2002-2003 biennium, however, the growth rate slowed significantly. The 2004 growth rate remained at a moderate pace; concurrently, the level of fees was consistently being reduced (more than 40 per cent in the period from 1997 to 2003). The combination of these two

factors – altered trends in growth and a decrease in fee levels – produced a relative decrease in PCT fee income as compared to the corresponding growth of demand. This is shown in Annex III and Chart 4, below.

43. Thus, while in the 1990s the Organization concentrated on coping with the continuous and, to some extent unanticipated, growth of the PCT in view of the major role of PCT fees in its overall income, today the Organization's attention has shifted towards improving predictability of PCT income.

44. As outlined at the Informal Information Meeting on PCT Demand and Income Predictability and Forecasting, held at WIPO on December 9, 2004, the level of PCT income is influenced by a variety of factors: demand for PCT services; applicants' behavior; exchange rate fluctuations; performance of Receiving Offices (ROs) and International Searching and Preliminary Examining Authorities; and fields of technology.

45. Demand for PCT services (growth) is in turn influenced by a number of exogenous and endogenous factors. Exogenous factors include: performance of the economy globally, and in countries of highest and growing demand; research and development (R&D) investment levels; technological confidence levels; and exchange rate fluctuations. Endogenous factors include: the level of PCT fees as compared to other filing routes; the attractiveness and value of PCT services as compared to other filing routes; the overall credibility of performance of the patent system; and individual corporate patent strategies.

46. As mentioned at the Informal Information Meeting on PCT Demand and Income Predictability and Forecasting, WIPO is examining factors that have an impact on PCT filings and is making great efforts to develop a model that will more reliably predict PCT income. A brief description of the way in which some of these factors are expected to influence PCT income in the medium-term is given below. It should be stressed that the model, which is now only in its formative stages, was not yet in place at the time the 2004-2005 Draft Program and Budget was prepared.

47. The performance of ROs influences PCT income because fees paid by applicants to ROs are received by the International Bureau only when it receives the corresponding applications from the ROs. In other words, when transmittal is delayed, receipt of income may be delayed as well. Exchange rate fluctuations between the time applications are filed with an RO, and the time their corresponding fees are received by the International Bureau also influence income, sometimes significantly.

48. Applicants' behavior also influences PCT income in a variety of ways, as follows.

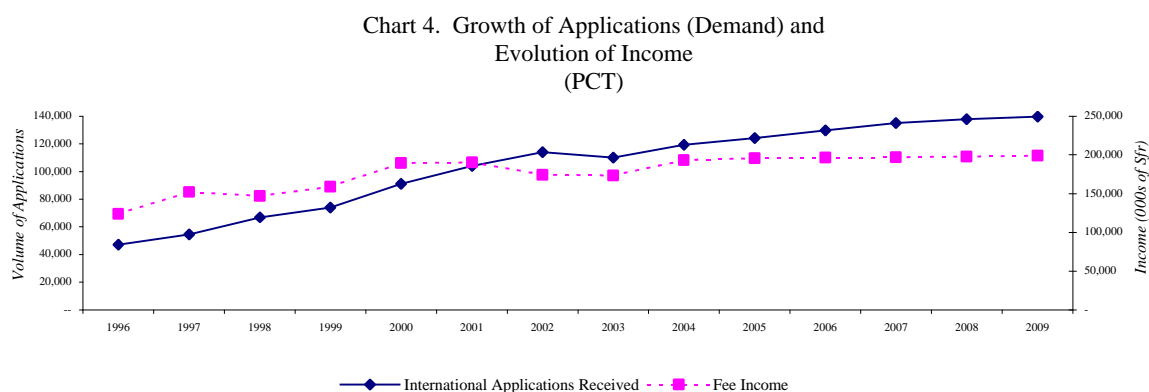
(i) Page Fee: The International Bureau receives 15 Swiss francs for every page over 30 pages in a given application. As also shown in Table 4(b), above, income from page fees will be around 30 million Swiss francs in 2004. The Secretariat is of the view that the concept of page fees will eventually need to be rethought to account for the electronic filing and processing of applications. However, there are currently no plans to change the page fee structure in the 2006-2007 biennium.

(ii) Electronic Filing: Electronic filing influences income, because when applicants use electronic (instead of paper) filing, they benefit from discounts. This is another change resulting from the PCT Reform Process. As shown in Table 4(b), above, in 2004, use of electronic filing was still moderate (discounts totaled 8.2 million Swiss francs). It is

estimated that in 2005 use of electronic filing will increase (producing an estimated 10.68 million Swiss francs in discounts) and that in 2006 discounts may reach 12.75 million Swiss francs.

(iii) International Preliminary Examination: Making use of international preliminary examination under Chapter II of the PCT influences income because applicants must pay an additional fee (the handling fee). One of the changes introduced by the PCT Reform Process is that all applicants, as part of the international filing fee, receive a written opinion by the International Searching Authority as to whether the claimed invention appears to meet the requirements of patentability under the treaty. As shown in Table 4(b), above, because of this change, Chapter II (or handling fee) income has fallen from 18 million Swiss francs in 2002 to around 9 million Swiss francs in 2004. It is difficult to predict exactly how much further, or how quickly, Chapter II filings may fall. Based on current estimates, Chapter II income may fall to 5.5 million Swiss francs in 2005 (or a five per cent reduction compared to 2003), and even further in 2006 and 2007.

49. Annex III and Chart 4, below, show the estimated evolution of PCT demand and income in the medium-term (2006 to 2009), taking into account the above-mentioned factors. As shown in Annex III, demand for PCT is expected to grow at a moderate pace (3.0 per cent) from 2006 onwards. At the same time, income is expected to grow at an even slower pace (1.2 per cent in 2005 and 0.4 per cent as of 2006). This is due to expected increases in the use of electronic filing (which produces discounts), and an expected reduction in the use of Chapter II (which generates fees).



50. It should however be noted that, as emphasized at the December meeting, WIPO predictions of PCT filing patterns and fee income probably have a three to five per cent margin of error per year, and the margin is likely to increase with the length of the term of the forecast. Major shifts in filing patterns in major user countries may also produce larger variations.

Madrid Income

51. The growth of registrations and renewals (demand) and the evolution of income from the Madrid system from 1996 to 2003 and projections for 2004 to 2009 are shown in Chart 5, below, as well as in Annex IV. These projections and their underlying assumptions will be further elaborated in the Proposed Program and Budget for 2006-2007.

52. By way of anticipation, it is noted that taking into account the accession of the United States of America to the Madrid Protocol on November 2, 2003, and the accession of the European Community to the Madrid Protocol on October 1, 2004, it is expected that income from Madrid fees will grow 21 per cent in 2005. The income increase projected for 2006 is also linked to the fact that, given the modification of the renewal period, introduced in 1996, from 20 to 10 years, as of 2006, there will be a considerably higher number of renewals.

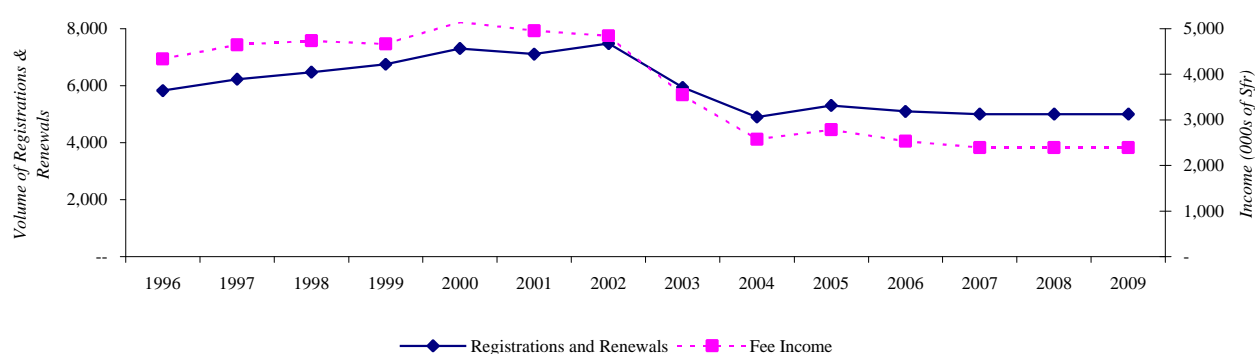
Chart 5. Growth of Demand and
Evolution of Income
(Madrid)



Hague Income

53. The evolution of Hague registrations and renewals (demand) and income from 1996 to 2003 and current estimated projections for 2004 to 2009 are shown in Chart 6, below, as well as in Annex V. These projections and their underlying assumptions will be elaborated in the Proposed Program and Budget for 2006-2007.

Chart 6. Growth of Demand and
Evolution of Income
(Hague)



Member States' Contributions

54. Based on current projections, it is estimated that in 2006-2007, contributions will remain at the same level as is the case in the current biennium.

Other Sources of Income

55. Based on current projections, it is estimated that in 2006-2007 other sources of income will not vary significantly from latest estimates for the current biennium.

(b) Working Hypothesis for Expenditure

56. The Secretariat is currently in the process of analyzing workplans and related resource requirements, by program area, for the 2006-2007 biennium. For this reason, it is difficult at this stage to indicate a precise level of expenditure for 2006-2007. However, it would already seem that, for a number of program areas, it would be difficult in the medium term to meet the respective objectives with the low level of expenditure currently targeted for 2004-2005. This is the case, *inter alia*, for Main Programs 08 (Cooperation with Developing Countries), 09 (Cooperation with Certain Countries in Europe and Asia), 10 (WIPO Worldwide Academy), and 13 (Information Technology).

57. Also, following the decision of the WIPO General Assembly on the subject of the Development Agenda (document WO/GA/31/15, paragraph 218, pages 67 and 68), additional financial resources may be required in the next biennium to implement such an Agenda.

58. As regards the amount of resources expected to be required in 2006-2007 for the operation of the PCT, Madrid and Hague systems, the figures in Annex VI are based on the assumption of moderate growth in demand for PCT and Madrid services, and a slight decline in demand for Hague services. It is also assumed that growth in the PCT and Madrid sectors will be partly absorbed by efficiency gains.

59. As regards the new construction, the figures in Annex VI are based on the assumption that the project would be resumed in 2006, through external funding (bank loan). As explained in document WO/PBC/IM/05/3, this would have only a marginal impact on the level of resources required for the 2006-2007 biennium.

60. As shown in Annex VI, based on the working hypotheses described above, there would be a deficit of 32.0 million Swiss francs in 2006-2007. If this deficit were to be covered again through reserves, the level of reserves at the end of 2007 would be significantly below the target level of 18 per cent of biennial expenditure recommended by the Member States. As also illustrated in Annex VI, this would not be sustainable in the medium-term.

61. To ensure the financial viability of the Organization, a balanced budget needs therefore to be in place as of the 2006-2007 biennium. In the Secretariat's view, in 2006-2007, it might be difficult to compress expenditure below the level currently targeted for 2004-2005 without compromising the Organization's ability to meet its strategic objectives. Therefore, an income adjustment would appear necessary for the 2006-2007 biennium.

VI. CONCLUSIONS

62. WIPO is at a critical juncture in its financial evolution. Decisions taken with regard to the 2006-2007 Program and Budget will be crucial in determining the long-term financial stability of the Organization.

63. When it had proposed a 12 per cent readjustment of the PCT international filing fee, to take effect on January 1, 2005, the Secretariat was projecting a deficit of 40 million Swiss francs for the 2004-2005 biennium, with consequent depletion of reserves well below the target level established by Member States. This had been regarded as a potential risk for the financial viability of the Organization. Because of the two new developments described in Chapter IV, above, the Secretariat is now projecting a deficit of 23.0 million Swiss francs for the 2004-2005 biennium. The Secretariat considers that, for the remaining months of the current biennium, it is possible to cover this deficit through reserves.

64. In light of the above, the Secretariat considers that it would no longer be useful to propose a readjustment of PCT fees to take effect in 2005. The Secretariat is, however, of the view that this is the result of particular circumstances which, all other factors remaining unchanged, do not alter the necessity to consider a moderate adjustment in PCT fee levels in the medium-term.

65. Proposals to this effect will be submitted in the framework of the Proposed Program and Budget for 2006-2007.

[Annexes follow]

¹ In 2000, Member States approved a revised policy on Reserve and Working Capital Funds (RWCF) aimed at ensuring a more systematic approach to maintaining RWCF at a level deemed commensurate with the financial risks to which the various Unions and the Organization were exposed (document A/35/6 of September 2000). The key elements of this revised policy were (a) to set the level of reserves as a percentage of biennial expenditure relevant to each Union, and (b) to maintain these target levels. In short, the recommended level of reserves was established at 18 per cent of biennial expenditure.

² Income from publications was anticipated to be 10 million Swiss francs, but latest projections indicate an income of four million Swiss francs for 2004-2005. This decrease is mainly due to the fact that higher revenue publications (such as the PCT Gazette, PCT Newsletter, PCT Applicants Guide, and Intellectual Property Classifications) have been made available online free of charge thanks to cost-savings from IT investments, to meet the objective of increasing worldwide access to free or low-cost intellectual property information. As a result, there has been a steady decrease in paid subscriptions to these products.

³ Based on current estimates, this will mean a net reduction of about eight million Swiss francs in staff expenditure compared to the originally approved budget for 2004-2005.

⁴ The 905 figure refers to full-time equivalent occupied posts. A given post, however, may be occupied by two persons, each working part-time. This explains why the total number of (full-time equivalent) occupied posts may be different from the total headcount of personnel under the regular budget.

⁵ In the 2004-2005 Program and Budget, the anticipated cost for short-term assistance was budgeted partly under the budgetary allocation for short-term employees (22.6 million Swiss francs), and partly through anticipated savings on vacant posts. Paragraph 26 in document WO/PBC/7/2 states that approximately 300 short-term employees were employed by WIPO in early 2003.