CIPA BRIEFING PAPER ON
EUROPEAN PATENT LAW PROPOSALS -
Unitary European Patent and Unified Patents Court

INTRODUCTION

For over 40 years there has been a dream of having a single patent to cover multiple European countries. The proposals for a Unitary European Patent (originally called the Community Patent) ran alongside the preparations for the European Patent Office ("EPO") which came into being in 1978, but implementation of a Europe-wide patent has remained a political problem. The chief sticking points were languages and finance.

We are now closer than ever to this dream becoming a reality. The problem is that the political momentum is about getting a deal – any deal – done, rather than doing the right deal. The wrong deal will be highly detrimental for business: and amending this in the future may not be possible. It has been suggested that the current deal would be like creating the euro for the patent system. The aspirations are laudable, but it is important to get the detail right. Without sufficient time and thought to do that, expensive mistakes are made.

BACKGROUND

Patent law is national in nature. If a business obtains a patent in the UK, it only covers the UK. To affect a competing business in France or Germany, an innovative business must obtain patents in France and Germany. Until 1978, separate patent applications had to be filed country by country. When the EPO started in 1978, it smoothed the process of applying for patents across Europe. Now a single application could be filed at the EPO to cover all participating countries. However, this unified application process does not lead to a unified patent. Once the patent is granted by the EPO, it splits from a single application into a bundle of national patents. These must then be validated in each state of interest.

The European Patent Convention now has nearly 40 member countries, including countries such as Turkey and Switzerland which are not members of the European Union. It has been a huge success.

On grant, validation can involve translating the patent into different European languages and paying local validation fees. Some of the cost of that has been reduced in recent years (by the London Agreement), but there is still variation country by country, and translating the entire patent is still costly. After grant, the various patents then have to be renewed, enforced, revoked and transferred separately in each country. Where patent infringement occurs in more than one country, this can mean bringing court cases in multiple jurisdictions.

There therefore remains an aspiration to reduce the costs of patent protection by having a single patent covering the whole European Union and to reduce the costs of multi-jurisdiction litigation by having a pan-European court.

The aspirations have been listed:

- Support innovation and growth.
- Accessible and affordable.
- Provide greater certainty for applicants and third parties.
- Based on laws and procedures that are easy to use.

However, more time is needed to get the proposed system right. As it stands, the draft text is likely to create a system which is

- expensive but not high quality;
- creating legal uncertainty for a1pplicants and third parties; and
- potentially impeding innovation, competition and growth.

The political pressure to reach agreement now is not conducive to a good system which will be better than what we have now.

In particular, some businesses fear that Europe is at risk of repeating mistakes previously made in the US, by introducing a system that will favour non-practising entities at the expense of manufacturing companies. Whilst some non-practising entities or businesses which only license IP (rather than manufacture themselves) are seen as legitimately contributing to technical developments (e.g. some University-based research), others are regarded as using the threat of litigation as a means for extorting unjustified royalties from manufacturing companies. These are sometimes referred to as “patent trolls”.

THE CURRENT DOCUMENTS

The current proposals are complex due to the way the system has evolved. They include the following:

- a draft Patent Regulation for a Unitary European Patent;
- a draft Regulation for the languages regime for the Unitary European Patent;
- a draft Court Agreement; and
- ancillary documents for setting up and running the Court.

The Unitary European Patent

This is an EU initiative. As Spain and Italy have objected, this proposal currently covers only 25 of the 27 Member States of the European Union (the “Participating Member States”).

This draft Regulation is moving under the Enhanced Co-operation Procedure and the final wording will be agreed between the Council, the Commission and the Parliament. Spain and Italy are challenging whether this is compatible with European law.

Broadly, the draft Regulation provides that, when an application filed with the EPO reaches grant, the applicant can elect (within one month of grant) whether to convert the 25 patents for the Participating Member States into a Unitary European Patent. Any remaining patents which the applicant wants to keep from the bundle of granted patents will need to be validated nationally within three months of grant in each of the other countries.

The provisions for the granting and revocation of patents by the EPO are set out in the pan-National Treaty – the European Patent Convention (“EPC”). This is the legal text which sets out how the EPO operates and for what it will grant patents and how it should do so. The EPO is not part of the European Union.

One important issue that is not yet clear is the level of fees required to obtain and maintain a Unitary Patent. Many companies (large and small) currently file only in the major markets of UK, FR and DE, and it is important that these businesses are not priced out of the system.

The Regulation for the Unitary European Patent therefore only lays down what happens after grant. It sets out provisions for dealing with the Unitary European Patent. As will be explained later, it controversially contains provisions as to what will infringe a Unitary European Patent, but it does not contain provisions relating to revocation.

The Languages Regime

The EPO operates in three languages only – English, French and German. The applicant chooses which of these languages to use. Patent applicants in European countries with another official language can file in their own language, but will have to file a translation into English, French or German. Before the patent is granted, the claims (the wording at the end of the patent which sets out the monopoly claimed) must be translated into the other two EPO languages – so the main text is in one language and the claims are in all three.

There has been a debate as to what further translation should be required on grant. The current proposal for the Unitary European Patent requires further translations (at least until there is good machine translation available). Patent applications in French or German must be translated into English. Those in English must be translated into any other official language of the European Union.

There is a further requirement for translation when there is a dispute. Then the patent owner must translate into a suitable language for the defendant – so the person accused of infringing the patent can read it in his or her own language.

The Court Agreement

Regardless of whether we have a Unitary European Patent or not, we currently have bundles of identical national patents granted by the EPO for each member state. Even after the Unitary European Patent starts, patent owners may still decide to keep national patents in only two or three countries, rather than opting for the Unitary European Patent.

Part of the impetus behind the current negotiations was how to avoid separately litigating the national patents in each country – the proposal is a Europe-wide Patent Court, with a court of first instance and an appeal court.

This is currently framed as an agreement between Participating Member States to pool their court structures. This is outside the Enhanced Co-operation Procedure and this court is no longer being set up by the Commission. It is now outside the Commission's remit and outside its funding arrangements. The proposals for this Court originally permitted other states for which the EPO granted patents to join in. However, this aspect has been dropped following an opinion from the Court of Justice of the European Union (CJEU). Italy and Spain currently remain outside the Court Agreement, though they retain the option to join in future. Even if they do not join the Unitary Patent, they might use the Court for litigation of national patents granted by the EPO.

The Court Agreement sets out how the court will be set up and how it will function. It also contains provisions as to what acts will infringe a national patent which has been granted by the EPO. When the owner of a patent accuses another company of infringing that patent, the person accused often seeks to have the patent revoked – alleging that it should not have been granted. The provisions for revocation are set out in the EPC – which works well for this Agreement.

The intention is that the court will have a Central Division and Appeal Court. Additionally, Participating Member States can either have their own Local Division or can join with other member states to form a Regional Division.
Controversial aspects of this Agreement include: (1) whether cases for patent infringement can be started in the Central Division; and (2) the extent to which a Local or Regional Division can separate the cases for infringement from the cases for revocation.
In the UK, patent infringement and revocation cases are heard together. The court will decide what the words in the patent claims mean and whether that covers the product made or sold by the defendant or the process which the defendant is using. Additionally, the court will decide whether that patent claim is valid or e.g. whether it comes too close to something known before the patent was filed.
In Germany, the patent infringement and revocation cases are bifurcated. This means that one court decides the meaning of the claims for the infringement case and another court decides the meaning of the claims for the revocation case. These cases proceed at different speeds and we, in England, perceive this division as giving the parties scope to argue different meanings in the two courts.
Given the way in which the languages will work for the Unitary European Patent, there is even greater scope in the new system for the parties to play games with the meaning of the claims, than there is under the existing system. With bifurcation, one might argue infringement in Polish and revocation in English. Given that one can be dealing with shades of meanings, this can give great scope for injustice.
The way the different parts of the courts are being set up, may well increase uncertainty for applicants and third parties. This is because some parts of the new court will continue to have a local flavour and will not have a truly European flavour, not least because the way that judges are selected for Local Divisions of the court will permit those Divisions to exhibit a national character, even embracing less favourable aspects of current national systems, such as bifurcation of infringement and validity, leading potentially to inconsistencies of approach across Europe. The Commission has argued that the Central Court of Appeal will resolve any inconsistencies, but businesses typically cannot afford to wait for appeal.
The aim is to set up a new European system, not to allow one national system to prevail over others.
The new court needs to balance the interests of the patent owner against the interests of potential defendants. An example of a recent dispute is the spat between Apple and Samsung. This shows how much money can be at stake in patent litigation.
Bifurcation has a tendency to favour the patent owner over the alleged infringer. The infringement case can proceed quickly with an injunction to prevent sale of product being granted, before a court has time to consider whether the patent should be revoked. Manufacturing business is fearful of being held hostage over this, by “patent trolls”.
The lack of EU funding for the Court has real practical implications. It will now need to be funded by Member States and users via Court fees. There has not been adequate time to consult with users about how Court fees should be set. This situation is exacerbated by the complexity of the system, particularly regarding bifurcation and languages which may require parties to instruct attorneys to work on different aspects of the same dispute in different languages. This will be particularly problematic for small and medium-sized enterprises (“SMEs”).

The main objections to the current drafts

CIPA supports both the idea of a Unitary European Patent and the Unified Patents Court – indeed we (together with other parts of the legal professions) have been urging the UK Government to bid for the Central Division to be located in the UK. However, we only support these moves if they will result in an improvement on the present system. What is currently being discussed is not an improvement. It would be worse, not better. The wording of the documents can and must be improved before they are signed.

Before signing up to these agreements, we need to know that they are going to provide cost-effective solutions. Insufficient work has been done on the financial models. At one stage, the Commission was to help with funding the new Unified Patents Court. However, that is no longer planned. That means that funding will either have to come from Participating Member States or from court users. For SMEs not to be priced out, some form of subsidy may be required. But that may then be abused by "patent trolls" to the detriment of manufacturing business. We need more detail on these provisions to see whether this new system makes economic sense before it is implemented.

The amendments we must have are:

a) **Deletion of Articles 6-8 of the Regulation.**

It does not make sense to have one set of provisions in the Court Agreement which set out when national patents granted by the EPO are infringed and a separate set of provisions in the Patent Regulation which set out when the Unitary European Patent is infringed. Two sets of wording are likely to diverge over time and be given different meanings. This is bad for business as there is then less legal certainty.

Further, by putting these provisions in the Regulation, questions over what they mean may well be referred to the Court of Justice of the European Union ("CJEU"). The CJEU must not decide European patent infringement law. They do not have the specialist expertise and are not suited to it. References to the CJEU lead to further expense and delay.

This is also a further ceding of sovereignty to Europe, without justification.

b) **Non-exclusive jurisdiction.** There must be a right to litigate EPO-issued national patents in existing national courts. This is vital for SMEs.

In the UK, we have recently reformed the Patents County Court ("PCC"). It has procedures and a costs regime which is more suited to SMEs. It has proved a success in its first year of operation, with a highly dynamic and well-respected judge, HHJ Colin Birss QC.

If the new Unified Patents Court has exclusive jurisdiction for these types of disputes, then these cases cannot be brought in the PCC. The costs for the new system are not yet known, but a three-man court is likely to be less flexible and more expensive than the current PCC and this will be detrimental to SMEs.

c) **German property law not to apply automatically to Unified European Patents of extra-EU applicants.**

Where Unified European Patents are obtained by businesses or individuals based in the Participating Member States, then these will be governed by their home property law. However, where the patent applicant is not based in a

Participating Member State (and that includes Spain and Italy) then the governing property law is Germany. This would then mean that the majority of ownership disputes in relation to the Unified European Patents will have to be dealt with by German practitioners in German national courts, in German. This will increase the costs for companies that operate in English.

Applicants should have the choice. When the Community Patent was first proposed, then those based outside the EU could chose jurisdiction by selecting the location of their chosen European patent attorney. This provision should be reinstated.

d) **Transitional provisions.** Five years is quite inadequate. There must be a continuing right for patentees to opt out. Also, because the system may not work as planned, and will be difficult to amend, there must be a clear right and mechanism for countries to leave it.

There are proposals to extend the transitional period to seven years, with an option for a further seven. However, these are major changes with significant economic impact for business. This creates risk. Rather than incur that risk, some businesses may opt out of the system altogether and go back to the pre-1978 position of filing patent applications with national patent offices. This is not good for business.

e) **Sensible provision for supplementary protection certificates ("SPCs").**

As it can take many years for a new drug to be approved for sale, there is a specific type of protection extension for pharmaceuticals (and agrochemicals). In the US, this is known as patent term extension. In Europe, these are called Supplementary Protection Certificates ("SPCs").

Currently, these can only be granted by national patent offices once the marketing approval has been obtained. The draft Regulation refers to SPCs for the Unified European Patent, but makes no proposals as to how these will be granted or revoked.

The Presidency has now recognised this oversight and said it will be addressed. But in our view, this should be addressed and the proposals known **before** the documents are signed.

Also, there are two features currently included which must be retained and clarified:

f) **Clear rights for European patent attorneys ("EPAs") to represent in the Court, possibly with extra qualification.**

Different European countries have different rules as to who can represent a client in patent legal proceedings. In England, both solicitors and patent attorneys can represent clients. In Germany, patent attorneys can represent clients in the revocation court and are allowed to speak in the infringement court.

The proposals currently allow for EPAs to represent clients in the Unified Patents Court, although some form of extra qualification will be required. Our experience here is that a patent attorney with suitable litigation experience may do a better, cheaper job for the client than a solicitor who has no experience of patents.

Some lawyers in other jurisdictions are seeking to have this provision deleted. This should be resisted.

g) **Proper privilege for advisors.** Legal professional privilege and litigation privilege needs to be recognised for all patent attorneys on patent prosecution files.

Business will avoid this court if there is a risk that some of the legal advice will have to be disclosed during litigation.

Privilege generally arises only in countries where there is a requirement for parties in litigation to disclose documents. This tends to happen in common law countries and not in civil law countries. So this issue is not well understood.

In the UK, privilege applies to communications with patent attorneys when obtaining information and advising in relation to obtaining patent protection. This applies whether they are work in-house for a company or are in external professional service firms.

At the moment, the provisions in the Court Agreement and the current (early stage) draft Rules of Procedure only refer to privilege in documents created by the advisers in the current legal proceedings. It is of vital importance to industry that legal professional privilege should also attach to all advice given in the preparation and prosecution of the patent application itself and all advice given in relation to the analysis of third party patent portfolios, no matter where in the world the original drafting, searching or analysis was done and no matter whether the lawyer/patent attorney was an external adviser or an in-house patent adviser.

The rules of court procedure for the Unified Patents Court are not yet in a form for approval. These rules will be critical as to how the Unified Patents Court operates in practice and it is essential that an advanced draft be available to users as soon as possible and in any event before the Agreement is ready for signature. Users need an opportunity to have an input to ensure that the Rules of Procedure achieve an appropriate balance between guiding the judges as to how their powers should be exercised without unduly fettering their discretion to ensure that each case is dealt with in an appropriate way. This will create some predictability as to how cases will be conducted and consistency as between different divisions.

These are the key issues, but there are other amendments needed, as well.

The Government should not sign up until all the documents are ready.

6 December 2011