

The Proposed New European Unitary Patent and Unified Court

Summary

By the time you read this article, the outstanding issues surrounding the proposed Unitary European Patent and Unified Court system may have been settled, with the detailed timetable for implementation being just around the corner. Alternatively, issues relating to the Euro debt crisis may have pushed discussion of this package off the agenda for the meetings of European leaders in June 2012, putting the decision on this package back to a later date.

The Unitary European Patent is now closer than it has ever been in the 40+ years under which it has been under discussion. But will the system that is being proposed make life easier or more difficult for technology companies? Is the political deal a good one? If it comes about, how should it affect your current patenting and business strategies?

History

The European Patent Office opened its doors for business in 1978. It has been a huge success and has grown from a handful of member countries to 38 member states, with extension possible to two other European states. However, there are two key points to remember about the European Patent Office:¹ It is NOT an institution of the European Union; ² Patents are still national rights. On grant, the single European patent application breaks apart into national patents for each member state. In order to keep that protection, the patent owner will have to take steps to validate and maintain that patent in selected member states.

When a patent is infringed, the patent owner must bring legal proceedings to protect its rights: most of the time that means suing competitors on a country by country basis. There are some exceptions within the European Union, when one country

will adjudicate on patent infringement happening elsewhere in Europe.

However, this is not the rule.

In the pharmaceutical market, generic manufacturers frequently seek to invalidate patents before launching their own products. These actions must also be brought country by country. Ranbaxy's attempts to have the Pfizer patents relating to Lipitor® overturned was one example of this. Different European courts came to different conclusions.

In contrast to Europe, the entire US market can be protected by a single patent, and there is only a need for a single US court case. The continued fragmentation of the European Union for IP rights does not make commercial sense. But how to modify the European system, and how to make that work in a way which is better than the system we have now, are questions which remain to be answered.

The Current Proposals

The current proposals have two main components:

- A Unitary Patent
- A Unified Patents Court

The Unitary Patent

A Unitary Patent should be a no-brainer. To obtain one patent covering the whole of the EU must be better than up to 27 separate patents. That would be one validation, one set of renewal fees and one patent against which to register ownership changes.

However, there are wrinkles.

Extent of coverage – The Unitary Patent will not cover all countries for which the EPO grants patent protection. So there will continue to be fragmentation in Europe. Further,

Spain and Italy, although within the EU, have opted out of the Unitary Patent. So the Unitary Patent will only cover 25 countries.

Obtaining the Unified Patent will follow the existing system – file an application with the EPO, wait for the EPO to examine and grant it. On grant, the patent owner will then have a choice. It can continue to validate the patent in selected member states, as now. Or it can elect to take a Unitary Patent for 25 EU states and validate selected countries in the other 13 EPO member states, as now. If key countries of interest include Switzerland, Turkey, Spain or Italy, then there will be no change to the current process.

Third parties who object to the patent being granted can still oppose the Unitary Patent, as now, by filing an opposition with the EPO within nine months of grant. If that is successful, then revocation will affect all states for which the patent was validated. However, this time limit may expire before competitors find out whether a patented product is going to be successful. With the Unitary Patent there may be less pressure to file an early opposition, as a single later attack can be brought centrally against the Unitary Patent. So although it may be attractive to have a Unitary Patent, some companies would prefer not to put too many eggs in one basket.

Validation costs – Currently, few patent owners validate in all possible member states. The costs of obtaining a Unitary Patent may be more than the **costs** which a business currently pays for validation in selected countries. The EU is currently touting figures for cost savings. But this would only affect those who routinely validate in all 25 Unitary Patent states. For everyone else, will any

REGULATORY & MARKET PLACE

extra protection obtained across other EU member states be worth the extra cost? This may seem odd, so let me explain the complexity of this further.

The EPO only operates in English, French or German. Patent applications filed in any other European language must be translated into one of those official languages. Before grant, the patent claims will be translated into the other two EPO official languages. So an application in English will have its claims translated into French and German, thus ensuring that the patent claims are in all three languages.

Following grant, each country has rules as to how that patent is validated. For example France, Germany, Liechtenstein, Luxembourg, Monaco, Switzerland and the United Kingdom do not require any further translations at grant. Some countries, such as Denmark and Hungary, only require the claims to be translated into the local language, provided that the patent is in English. If the patent is in French or German, then the entire text must be translated into a local language or English. However, there are still countries, including Greece and Portugal (as well as Spain and Italy) which require a full translation of the text and claims into their local language.

When it starts, a Unitary Patent will have to be translated in its entirety. Where the language of prosecution was French or German, then the full text will have to be translated into English. Where the language of prosecution was English, then the full text has to be translated into the language of any other participating state.

So if your company would normally file its patent applications in English and only validate in the UK, Ireland, France and Germany, then opting for the Unitary Patent could initially add significant translation costs. The requirement to translate the full text is expected to be phased out in time, as computer-generated translations improve and can be used in place of those created by qualified translators.

However, the Unitary Patent will still not solve the problem of the additional costs incurred where protection is also required in Spain, Italy or the other European countries which are not in the EU.

Renewal costs – To remain in force, renewal fees have to be paid for each year of the patent's life. Currently these are paid in each European country of interest. The fees increase as the patent gets older. This is to encourage companies not to maintain patents which cease to have commercial value for them.

Part of a company's current renewal strategy may be, over time, to reduce the number of countries in which the patent is maintained. If a Unitary Patent is obtained, then that reduction in territorial coverage to save cost will no longer be open to the patent owner. The Unitary Patent will either be renewed in its totality or dropped.

We don't yet know the level at which renewal fees will be set. There has been a suggestion that they would start low and rise more steeply than they do now towards the end of the patent life. So when deciding whether to opt for the Unitary Patent, a company should also look at the current schedule of renewal fees to determine likely lifetime costs of the Unitary Patent over the current system.

Enforcement – Although very few of the thousands of patents which are granted each year end up in the courts, the cost of patent enforcement and track record of the courts is an important consideration. If enforcement becomes too difficult or expensive for small companies, then the value which they should obtain from their investment in the patent system is seriously eroded. On the other hand, as the market becomes more and more complex, the chances of operating completely clear of competitor patents also becomes more difficult, and so consideration has also to be given to the impact on companies of being caught up in patent litigation as a

defendant. The system should not therefore be tilted in favour of patent owners.

The Unified Patents Court

The intention is that nearly all litigation for patents granted by the EPO for EU member states will be decided in the Unified Patents Court – whether these are Unitary Patents or national patents validated following an EPO patent grant. Patents can also still be obtained from national patent offices and these will be outside this system. So there will still be parallel systems. Italy has indicated that it may join this part of the system, even though it will stay outside the Unitary Patent. Spain is likely to remain outside. So this system may cover 26 EU countries.

The choice of location to start litigation is likely to be complex. In addition to having a central court, each country may opt to keep local patent courts, or to collaborate with other countries to set up regional courts. For example, Germany has said that it wants four local courts, whereas the UK, the Netherlands and Ireland might co-operate to share a court.

Additionally, there will be a single appeal court to which all appeals from the local, regional or central courts will go. A mediation centre will also be set up to help parties reach settlement without a full trial.

This leads to a complex web as to where different types of patent action are begun – whether they should be brought locally or centrally, and whether that will give rise to a different quality of decisions, or differences in the way in which procedures are implemented.

Location of the central court – European officials are currently portraying this as the only issue left to be decided, although, in the UK, we do not agree with this assessment. Four countries have made formal bids for the location of the Central Division – Germany, France, the UK and the Netherlands.

There is a strong bid from the UK. More patents are granted in English

than other languages. London has good connections for those coming from outside the EU to litigate. Also, crucially, the EPO does not have an office in the UK. As the central court will hear appeals from the EPO in relation to Unitary Patents, it is important that the central court is not seen as being too “cosy” with the EPO.

Bifurcation – However nice it would be to assume that all patents granted by the EPO are valid, we know that that is not the case. Although the EPO does its best to search and examine applications, competitors may know of other documents, presentations or instances of public use which are not going to be found by the EPO during examination. In the telecoms industry, in particular, a large number of the disputed patents granted by the EPO are overturned.

In some European jurisdictions, notably Germany and Austria, patent infringement is heard in one court and patent validity is heard in completely different court. Anglo-Saxon lawyers find this hard: we operate under a basic premise that you cannot infringe an invalid patent, and so the court should look at the scope of the patent claims and whether or not they are valid before granting injunctions or awarding damages. Also, we fear that by separating these issues to different courts, patent owners are likely to argue for a broad claim construction during infringement proceedings (so as to catch the competitor) and narrow claim construction during validity actions (to avoid prior art). This favours the patent owner to the detriment of the competitor. It is particularly felt to benefit “patent trolls” – those who acquire patents (many of dubious validity) for licensing purposes and then use the threat of injunctions to extract maximum licence fees.

For a patent owner, a system which enables it to obtain a swift injunction covering the whole of Europe is enticing. Under the Unified Patent Court system, where there are grounds for starting an action in Germany, a patent owner may get

an early injunction ahead of trial and with no consideration of validity. On the other hand, where there is a risk of being a defendant, the location of operations which might be affected by that injunction becomes an important consideration.

In the telecoms space, Apple recently relocated a distribution hub from Germany to the Netherlands to remove it from the effect of these swift German proceedings. Once the Unified Court is working, then those injunctions granted by the German local court will take effect throughout the relevant European Union states. What will this mean for the location of factories and distribution hubs? Will these need to relocate to Spain? Or out of the EU?

Other wrinkles – there are other provisions in the legislation which are still causing issues. There is a committee which is trying to draft rules for the court. As it gets into the detail, it becomes apparent that there would be better ways of writing the agreement to set up the court. However, with some countries refusing to discuss any changes to the legislation, the system is likely to be more cumbersome than necessary.

The rules about patent infringement are being written into the two different legal documents. The rules for infringement of the Unified Patent are in an EU Regulation. This means that there is potential for referring questions on infringement of Unitary Patents to the Court of Justice of the European Union (CJEU). This will lead to delays (usually at least two years – which is significant in a patent dispute) and added costs. The CJEU does not have patent expertise, and many of its judgements in the IP field are already much criticised. When it starts to rule on patent issues, many commentators expect patent law to become less clear and harder to implement. Infringement provisions for national patents granted by the EPO for EU countries are in the other piece of legislation – so there is possibility for patent law under the two legal documents to diverge.

Conclusions

Simplifying the European patent system should be something which all users would welcome. There should be benefits for all. However, political fudge means that insufficient attention has been paid to the detail and representations by those seeking to avoid pitfalls are dismissed in the rush to do a deal. The UK Parliamentary European Scrutiny Committee published a report on these proposals on 3 May 2012. It was not complimentary.

So we wait to see whether we will all have to live with the current proposals or whether sense will prevail and amendments will be allowed, in order to make a system which will really deliver benefits to its users.

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