



House of Commons  
European Scrutiny Committee

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# The Unified Patent Court: help or hindrance?

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Sixty-fifth Report of Session 2010–12

*Volume II*

*Additional written evidence*

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## European Scrutiny Committee

The European Scrutiny Committee is appointed under Standing Order No.143 to examine European Union documents and—

- a) to report its opinion on the legal and political importance of each such document and, where it considers appropriate, to report also on the reasons for its opinion and on any matters of principle, policy or law which may be affected;
- b) to make recommendations for the further consideration of any such document pursuant to Standing Order No. 119 (European Committees); and
- c) to consider any issue arising upon any such document or group of documents, or related matters.

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- i) any proposal under the Community Treaties for legislation by the Council or the Council acting jointly with the European Parliament;
- ii) any document which is published for submission to the European Council, the Council or the European Central Bank;
- iii) any proposal for a common strategy, a joint action or a common position under Title V of the Treaty on European Union which is prepared for submission to the Council or to the European Council;
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- v) any document (not falling within (ii), (iii) or (iv) above) which is published by one Union institution for or with a view to submission to another Union institution and which does not relate exclusively to consideration of any proposal for legislation;
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The Committee’s powers are set out in Standing Order No. 143.

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## List of additional written evidence

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# Written evidence

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## Written evidence from the Confederation of British Industry (CBI)

1. The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi the CBI communicates the British business voice around the world.

2. Our submission sets out our thoughts on proposals for the Unitary Patent and Patent Court. Our position has been established in consultation with a wide variety of CBI members. In summary:

- The CBI has supported, and continues to support, the development of a properly implemented Unitary Patent and Patent Court. However, proposals at the end of 2011 were of significant concern to IP-rich (and associated) industries in the UK.
- Concerns relate to legal certainty and quality; clarity over the transition process; the location of the proposed central court; and practical issues, principally around cost.
- We welcome the opportunity to appropriately address and resolve these concerns under the Danish Presidency during the first half of 2012.

3. The CBI has consistently expressed support for the development of a high-quality Unitary Patent and accompanying Patent Court, and continues to support the project in principle. In particular, Professor Hargreaves' finding that the establishment of a Unitary Patent could increase UK national income by over £2 billion a year by 2020 is significant. In the final months of 2011 we voiced concern that the proposals on the table (under the Polish Presidency) were not ready to be progressed, and, if accepted, would create a patent system in Europe which is worse than the one we have at present.

4. We are keen to see momentum for the project continue, but it is important that this momentum is not at the expense of a high quality patent system. CBI members have expressed substantial concern at elements of the current proposals, and it is crucial that these issues are appropriately resolved if this project is to continue with the full support of UK industry behind it.

5. These concerns relate to legal certainty and quality; clarity over the transition process; the location of the proposed central court; and practical issues, principally around cost. In particular, we remain concerned about the following issues:

- It is crucial for the Patent to be credible and workable. Judicial quality and expertise must be ensured across the regional, local and central courts. In particular, to ensure this, we support the deletion of Articles 6–8 from the Patent Regulation. With the Articles included, there is a risk that a two-tier legal system could emerge, with the remit of ECJ Judges potentially expanded to interpret Patent Law, rather than the specialised courts as intended. Therefore, this has the potential to create significant legal uncertainty for IP-rich industries in the UK.
- It would increase business confidence to have an appropriate transition to the new system in place, with clear procedures established before the deal is finalised—particularly the right to bring infringement cases to the central court, which would be reassuring for UK industry.
- The location of the local and central courts is highly important, as the host nations will undoubtedly reflect local custom and practice in their domains. It is therefore crucial that courts are located in different countries, and that the chosen locations reflect the truly European nature of the project, rather than giving one country a competitive advantage.
- Practical issues remain, particularly relating to the cost of implementation and the choice of an appropriate financing model. It is particularly important that the fee regime adopted works for smaller firms, so that SMEs are not disadvantaged by the new system.

6. We believe that with considered discussion on the issues outlined above, it should be possible to reach a final agreement on the Unitary Patent under the Danish Presidency with the support of the UK business community. Regular stakeholder involvement in this process can contribute significantly to achieving this objective, and we will continue to work with the Government in any way we can to achieve that objective.

20 January 2012

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### Written evidence from James Hayles, President of the IP Federation

The IP Federation represents the views of UK industry in both intellectual property policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed at the end of this letter. It has wide experience of how intellectual property law, including patent litigation, works in practice in the UK, Europe and internationally.

We are aware that on 25 January, your Committee will take evidence from organisations which have already written to you relating to the proposed Unitary Patent and Unified Patent Court. The Federation and its members have been closely involved in discussions of this issue with the Intellectual Property Office.

Because your Committee had previously asked the Minister for industry's views, we had thought it unnecessary to write to you until now. However, in view of the evidence you are taking from other organisations, we feel now is an appropriate time to express our views.

This matter is of great commercial importance to industry in the UK and elsewhere. Completion of the project will enable patents to be enforced or revoked across the territories of all participating Member States in a single action rather than on a country by country basis. A decision of the new court will be effective throughout the world's biggest single market.

The IP Federation is in favour of Unitary Patent Protection, and broadly in favour of a Unified Patent Court which, if properly designed and implemented will bring benefits to users over the current system. However, a system that is not of sufficient quality—one that is prone to give a “flawed” result—will have significant detrimental impacts.

A decision revoking a patent throughout the participating Member States can be of significant impact on the owner of that patent. For a large pharmaceutical company, for example, such decisions in the United States (which has a similar market size to that which will be covered by the proposals) have led to drops in share price of in the region of 5%. Many SMEs rely to a significant degree on the existence of one (or a few) patents to maintain their businesses and a flawed decision revoking the patent will have a drastic impact on their businesses.

A decision enforcing a patent will prevent commercial activity throughout the participating Member States. This is of particular significance for many SMEs whose product range can be limited to a single product.

A system that enables a decision and potentially an EU-wide injunction to be issued in advance of any consideration of the validity of the patent in suit will favour non-practising entities (or patent trolls) to the detriment of UK manufacturing companies.

No one can complain about high quality decisions revoking or enforcing a patent, whatever the commercial impact of these decisions might be. However, because of the commercial significance of decisions of the new court, it is of the utmost importance that all reasonable steps should be taken to ensure that systemic inadequacies do not lead to flawed decisions.

However, the Federation is extremely concerned that the current proposals for the draft Regulation and draft Agreement will create a patent system in Europe which is *worse* than we have today. This is also the consensus view of many companies, judges, lawyers and patent attorneys in the UK and elsewhere.

Our main concerns are:

- Articles 6–8 (defining the rights conferred by a Unitary Patent) should be removed from the draft Regulation.
- The draft Agreement should allow patent owners to initiate infringement proceedings and proceedings for protective and provisional measures before the Central Division.
- The draft Agreement should allow patent applicants to opt out of the jurisdiction of the Unified Court those patents applied for via the EPO (other than unitary patents) during the transitional period.
- The Central Division should not be located such as to encourage delays in the consideration of validity. Our preference would be for the Central Division to be created in London.
- A satisfactory and advanced draft of the Rules of Procedure should be available before signature of the Agreement. These Rules will govern the way the Court operates in practice and will be crucial to achieving satisfactory quality.

So concerned are some of our members about the quality of the proposals that they are already considering or taking steps to avoid having to use the new system, even though this may mean incurring extra costs. It is a sad reflection on the proposals that innovative companies should be seeking to avoid a system whose object is to benefit innovation.

There are many other, more technical, issues which need to be fully addressed before the new system can be considered satisfactory, far less to be best in class. The perceived need to complete this project quickly should not override the need for full consideration of these issues.

We hope that this letter will assist your deliberations and would be happy to provide further assistance or evidence if you wish.

23 January 2012

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## Written evidence from the Intellectual Property Lawyers' Association

### INTRODUCTION

The Intellectual Property Lawyers' Association ("IPLA") represents solicitors' firms in England & Wales which have specialist intellectual property practices. The vast majority of patent and other intellectual property cases in England & Wales are handled by IPLA Member firms. Member firms also have practical experience of how patent litigation works in other jurisdictions, both within Europe and elsewhere. This memorandum sets out a number of IPLA's concerns about the proposed Unified Patent and Unified Patent Court. There are a number of unresolved issues and we support HM Government in its attempts to secure sufficient time for these issues to be properly resolved.

### 1. THE DESIRABLE OBJECTIVE

Under the present system, European Patents (sometimes referred to as "bundle patents") are processed in a single application by the European Patent Office but, on grant, become a "bundle" of separate national patents. Accordingly, if a company distributes a product which infringes a "bundle patent" across Europe, a patentee faces having to take separate proceedings in each relevant country under the local "bundle patent". Since enforcing the patent in Europe accordingly involves several parallel infringement actions, the cost is greater than it should be and there is a risk that different courts will reach different and sometimes inconsistent decisions, in widely differing timescales. In many cases, it may not be commercially necessary to enforce the patent in every country, but this can lead to procedural games and forum-shopping as each side tries to secure a decision from a court which is thought to be favourable to its case. A supra-national system which allowed a single set of enforcement proceedings across the whole of Europe has obvious advantages.

A number of things characterise a desirable supra-national court: if these are not achieved, such a court will not be better than the current national system.

#### *Speed*

Most commercial litigation consists of arguments about liability and compensation for something which has happened in the past. Patent (and other IP) litigation is different; it is normally concerned with products which are still on the market, and which continue to damage the patentee's business unless and until an injunction is granted, usually following the final decision. If an interim injunction is granted pending the final decision, the accused infringer is kept out of the market, when it may turn out at the final trial that it was not in fact infringing the patent. Either way, there is a pressing need, in the interests of commercial necessity and more generally in the interests of fairness, that the court should come to a final decision as rapidly as possible. Taking into account the work necessary to prepare the evidence for the court, the general consensus is that trial within six to 12 months is desirable, and achievable.

#### *Judicial Expertise*

Patent law comprises a series of concepts which are unfamiliar to most lawyers (and judges) who have not made a special study. Furthermore, decisions in patent cases require the application of the law to scientific facts in areas of technology with which the judges are unfamiliar. A good patent judge accordingly requires knowledge of patent law and experience of its application, together with a willingness to engage with and understand unfamiliar technologies. Judges who do not have these characteristics will find it difficult to give decisions which are fair and which will be respected by the litigants.

#### *Procedural fairness*

The procedural rules need to be even-handed so there is no significant advantage for plaintiff or defendant. For example, a patentee may need information from the defendant in order to establish the case on infringement, while a defendant may need information from the patentee in order to establish a case on invalidity of the patent. Rules which permitted the patentee to insist on the provision of information by the defendant, but which did not give a corresponding right to a defendant, would unfairly favour the patentee, and are undesirable.

#### *Proportionality*

Patent litigation can be huge—involving a patent on a product with a turnover of hundreds of millions of pounds across Europe—or may be small, between SMEs where the relevant turnover is less than £1 million. The system needs flexibility, so that SMEs can obtain a decision at low cost (probably at the expense of procedural sophistication), while litigants fighting over a very substantial market need to be able to bring before the court their full range of arguments and for the court to consider them in appropriate detail.

## 2. AREAS OF CONCERN

CIPA and the IP Bar Association have identified a number of areas of concern and we are generally in agreement with their views. We also fully support them and HM Government in their advocacy of London as the seat of the Central Division of the proposed Unified Patents Court: if that could not be agreed, then it would be desirable that the hugely important post of President of the First Instance Court be first occupied by a British judge.

We take this opportunity to comment on some specific issues, bearing in mind the considerations outlined above.

References to Court of Justice of the EU (“CJEU”)—Articles 6–8 of proposed Regulation on Unified Patent: Articles 6–8 put the law as to what acts infringe a patent into Community legislation, and accordingly disputes as to the correct application of these provisions must be referred to the CJEU for a ruling. The procedure before the CJEU typically lasts for two years or more, during which time the proceedings in the referring court must be suspended. Since the accused infringements are likely to be continuing during the period of such suspension, there is a risk that the patentee will suffer significant injustice.

Furthermore, we are not aware of any proposals to educate CJEU judges in EU patent law, and one of the objectives of the draft Court Court Agreement, to provide expert judges will be undermined.

As explained in the IP Bar’s submission, it is not necessary that the law on infringing acts be contained in the Unified Patent Regulation.

### *Bifurcation*

In a significant proportion of patent cases, the defendant’s main defence is that the patent is invalid. Bifurcation means that the court which assesses whether the defendant infringes does not consider this defence. Furthermore, since validity cases tend to be more complex, the court hearing the infringement case is likely to make its decision before the court hearing the validity case. It is an enormous advantage for a patentee to have the issue of infringement decided without the defendant having an opportunity of putting forward its main defence. Bifurcation accordingly contravenes the principle of procedural fairness.

### *Rules of Procedure*

The most recent publically available draft of the proposed Rules of Procedure for the Court is dated October 2009. A number of important issues were discussed between European patent judges and representatives of the Commission at the Venice Patent Judges Forum in October 2009, but the revisions to the draft which reflect the result of this discussion which we understand have been made by the Commission are not publically available. There is accordingly considerable uncertainty as to the current state of the draft.

To finalise the Rules will involve a substantial amount of work. We illustrate this by reference to a small number of representative issues which will need to be resolved.

1. *“Front-loading”*: “Front-loading” is a requirement for the parties to prepare and submit all their arguments and evidence up front. It is designed to prevent parties from saving their best arguments to the last minute in order to take their opponent by surprise; but if taken to the extreme, it can require parties to expend time and effort on issues which turn out not to be in dispute. The degree of front loading to be required in the Unified Patent Court is understood to be a controversial issue.
2. *Service of proceedings*: It is important that legal proceedings can be started without delay, but there has to date been no detailed work on the rules for serving the originating documentation on the Defendant(s): this is likely to be a difficult issue, since there are currently wide variations in what is permitted, between for example the UK, where service is up to the parties, who can serve the proceedings by ordinary post, and for example Germany, where proceedings must be served by a court official: arranging service through official channels outside Germany can lead to delays of two months or more.
3. *Legal privilege*: The current rules provide for legal professional privilege only in outline. This is an area of some controversy where detailed rules will be necessary. Since privilege gives protection against compulsory disclosure of documents, there is no developed law of privilege in the many European jurisdictions where there is no such compulsory disclosure. Where privilege is recognised, there is disagreement between national rules, which recognise privilege for in-house legal advisors, and the law laid down by the CJEU for Community-level competition matters, which does not. Since most large companies rely heavily on advice from in-house patent lawyers, this will be an important issue.

The current draft rules give rise to a number of smaller issues, which although unlikely to prove controversial, will take time to resolve. Two examples are: (i) Rule 353, which limits the ability of a plaintiff to amend his case, but there is no corresponding limitation on a defendant; and (ii) Rule 209, which provides for compensation to a defendant for injury caused by interim measures which are revoked. Where a plaintiff lacks the resources to pay for such compensation, it can be ordered to provide security, but only on the

application of the defendant. Thus, where measures are granted ex-parte there would be no protection for the defendant.

### 3. FURTHER NEGOTIATION

IPLA recognises that, where other Member States take a different view, it is not necessarily possible for the UK Government to resolve issues in the negotiations in a way which UK industry and other UK users of the system would wish. However, there are a number of issues where there is very substantial agreement among users of the system across Europe (for example, in relation to the involvement of the CJEU), where the opportunity for further debate has been effectively closed off by those responsible for the progress of the negotiations. Furthermore, a significant amount of work will be required to produce Rules of Procedure which meet the objectives of speed, procedural fairness and proportionality, and the three months which we understand is the period which is currently envisaged for finalising these Rules would be insufficient even if none of the issues were controversial.

The UK IPO, which is responsible for developing policy in this area, has worked hard, particularly in the past nine months or so, to understand the views of UK Industry and other users of the patent system. However, those in the Commission and the Polish Presidency who have been driving the negotiations have to a large extent closed down debate on the provisions in the draft which remain controversial, and have set a timetable which does not permit the outstanding issues to be properly resolved. IPLA supports HM Government in its attempt to gain more time to allow a system which meets with the requirements of users more closely to be negotiated.

24 January 2012

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#### **Written evidence from Trevor Cook, President of the International Association for the Protection of Intellectual Property UK**

I write to you as President of AIPPI UK, the UK branch of AIPPI, the largest independent group of practitioners in intellectual property. Members of AIPPI UK include barristers, solicitors and patent attorneys, from both private practice and industry.

We have followed the deliberations of your committee about the draft agreement. We understand that you will be hearing further evidence on 25 January and 1 February 2012 and wish to draw to your attention one very important issue—the split between patent infringement and validity cases that is likely to become the norm in Europe. There is a significant risk that this will damage UK businesses. If, in spite of this, the UK is determined to support the draft agreement in its current form this should only be on the basis that the system as a whole is of some benefit to the UK. The options for the UK should therefore be either to accept the procedure in this form with the central division located in London (which not only provides some benefit to the UK but also, as has been explained elsewhere, the best scope to moderate the adverse consequences of the split) or for the UK to opt out altogether.

Our members include companies that enforce and defend patents throughout Europe and their advisors. They are concerned that the consequences of the jurisdictional asymmetry within the draft agreement on a Unified Patent Court (UPC) have not yet been recognised.

They are particularly concerned about the proposed split jurisdiction of a patent infringement action between the central division and the local divisions. The issue is best explained by reference to the current situation.

#### THE CURRENT SITUATION

At present, a patentee wishing to bring an infringement action in respect of a product sold throughout Europe would generally be advised to do so in one of the patent infringement courts in Germany. This is not merely because Germany is a significant market in Europe. It is also because German patent litigation is procedurally skewed in favour of the patentee, as a German patent infringement court has no jurisdiction to hear a counterclaim that the patent is invalid. The validity of such a patent can only be challenged in a separate patent revocation action or opposition proceedings, which (depending on the age of the patent) would be heard in the European Patent Office (EPO) or the German Federal Patents Court in Munich. However, such invalidity proceedings almost always take much longer than a German infringement court takes to determine the issue of infringement. German patent infringement courts can stay an infringement action pending the outcome of a revocation/opposition proceeding. Yet, in practice they will only do so where it is plain that the patent is invalid.

The split system favours a patentee in two ways:

1. A patentee can obtain damages for infringement and an injunction excluding a competitor from the market long before the validity of the patent is properly tested. This is a very significant advantage, because many patents turn out to be invalid on later examination.
2. A patentee can argue for a broad construction of the patent in the infringement action (and so catch more potential competitors), but for a narrow construction in the revocation action (and so increase the chance that the patent is held valid). Arguing two different positions cannot be

done when both matters are heard together, as in the English courts. In consequence, and because the infringement court comes to its decision first, a defendant may well be found to have infringed a patent that ought to have been revoked or significantly narrowed.

This imposes pressure on a defendant to withdraw the product in issue, or to settle with the patentee by taking a royalty bearing licence, because it cannot demonstrate sufficiently early on in the dispute that the patent which it has been found alleged to infringe is invalid.

This is not just a theoretical problem: one of our industry members has defended over 100 patent actions through to trial in Europe in the last five years. The majority have been asserted in Germany. In none of those actions has the asserted patent turned out to be valid as granted.

In response to this situation those companies that have a patent infringement action brought against them in Germany will be advised if, as is often the case, their invalidity arguments have good prospects, not only to bring a revocation action in Germany, but also immediately to bring an action in the UK seeking to revoke the UK patent corresponding to the German patent. In the English Patents Court, a revocation action can be brought to trial before the trial of the German patent infringement action. Although a decision from an English court that the UK patent is invalid does not bind a German infringement court, in practice a German infringement court would pay considerable regard to such a judgment, given the respect accorded English judgments and the full reasoning set out in them. As such, the German infringement court is more likely to stay the proceeding before it pending the outcome of the separate German revocation action.

This strategy can also be adopted pre-emptively by those who seek to establish, in advance of launching a product in Europe, that it does not infringe a particular patent or that such patent is in fact invalid. A successful revocation action and/or an action for a declaration of non-infringement in the English Patents Court will give such a company considerable confidence that by introducing a product throughout Europe it will not be infringing a valid patent, and can be deployed in the course of any national litigation that the patentee may bring against it under corresponding versions of the patent. Indeed, much of the litigation in the English Patents Court in recent years has been of this nature.

More significantly for the local economy, companies likely to be subject to patent infringement claims are well advised to locate significant infrastructure such as factories and distribution centres outside the jurisdiction of courts operating a split system of this type, so as to minimise the effect of an injunction under an unmeritorious patent. This applies particularly to such as those in high technology, telecommunications or pharmaceuticals industries, all of which are strongly represented in today's UK economy.

#### WHAT WILL HAPPEN UNDER THE DRAFT AGREEMENT?

The draft agreement purports to preserve for local divisions of the UPC the option of hearing revocation counterclaims to patent infringement actions. This option is illusory, because few infringement actions will be brought in those local divisions that do not apply the split system. This is because under the draft agreement it will be possible, in respect of a product that is sold throughout Europe, for a patentee to establish jurisdiction over an alleged infringer in a country hosting a local division which applies the split system, and so secure patent infringement jurisdiction in that local division for the whole of Europe.

The obvious candidate for a well advised patentee wishing to bring such an infringement action will be a German local division that applies the split system. Given that such a split system greatly favours the patentee, there would be no incentive ever to bring an infringement proceeding in a local division that does not do so. As a consequence, such other local divisions will rapidly become unviable and close.

Under the draft agreement, when an infringement action is brought in a local division that applies the split system, the defendant's patent revocation counterclaim will be referred to the central division of the UPC. The central division will however lack any incentive for it to hear such challenges quickly and before the local division has determined the question of infringement for Europe as whole. There is on the face of the draft agreement no reason why the central division should be expected to proceed any more quickly than the German Federal Patents Court, or the Opposition Division of the EPO, do now.

Moreover under the draft agreement the only option for those who seek to establish in advance of launching a product in Europe that it does not infringe a particular patent or that such a patent is in fact invalid will be to bring a revocation action and/or action for a declaration of non-infringement in the central division. Local divisions will have no jurisdiction over such matters.

Thus the long term consequence of this structure will be that the only local divisions that will survive will be those that apply the split system in the same way as the German infringement courts do currently. No other local division will retain sufficient work to survive. All other patent litigation, including all infringement actions will have to be heard in the central division.

We consider this to be undesirable, because:

1. It will facilitate the enforcement throughout Europe of patents that ought to, and should in due course, be held invalid.

2. It will discourage our industrial members from locating infrastructure within the UK, as this would now be vulnerable to injunctions from the German local division under such patents.
3. It will place competitors located in Asia or the United States at a significant competitive advantage compared to businesses located in the UK and the rest of the EU. Those foreign companies will remain relatively safe from business disruption from patent infringement cases, whilst businesses located in the UK and the rest of the EU will face significantly more risk of such disruption.
4. It will, ultimately, have the effect of reducing R&D in the UK and the rest of the EU relative to Asia and the US. As explained above, companies located in the UK and the rest of the EU will face significantly greater risk to their businesses from patent litigation, compared to companies located in Asia and the US. Those Asian and US companies will be able to demand higher royalties from the UK and other EU companies for licences under their patents. The UK and other EU companies will be compelled to license their patents for lower royalties to their US and Asian competitors rather than risk litigation. This will have two effects. First, UK and other EU companies will have less funding available for R&D as they will spend proportionately more on patent licences from Asian and US competitors and receive proportionately less for their own. Secondly, with the value of patents to UK and other EU companies now reduced, there is less incentive for companies based in the UK and the rest of the EU to invest in R&D and obtain patents.

In summary, the jurisdictional asymmetry of the draft agreement will have the consequence of making the split system inevitable. That will be bad for businesses located in the UK and the rest of the EU.

23 January 2012

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**Written evidence received from Professor Dr Winfried Tilmann, Attorney-at-Law, Düsseldorf, Germany**

THE BATTLE ABOUT ARTICLES 6–8 OF THE UNION-PATENT-REGULATION

One hotly debated issue for both, the draft-Unitary Patent Regulation and the draft-Agreement on a Unified Patent Court, was the rule on a cease-and-desist-claim in case of direct and indirect patent infringement with its limitations in the Regulation, a rule to be interpreted finally by the European Court of Justice. A growing number of user organizations had asked for a transfer of this rule into the draft-Agreement in order to avoid referrals to the ECJ on the requirements of the rule. The following article tries to explain why the EU legislator could not act accordingly.

*I. The dust has settled*

1. The dust of the “battle” about Articles 6–8 of the Union-Patent-Regulation has settled and the time has come to recount, for history’s profit, like *Tacitus*, what the battle was all about and what will follow from the solution the Trilog of the Presidency, the Parliament and the Commission has found.

2. Articles 6 and 7 of the proposal of the Commission for a Union-Patent Regulation of April 2011 were following the CTM-Regulation and the Design-Regulation which had regulated the cease- and desist-claim (*Unterlassungsanspruch*) in the case of the infringement of a CTM or a Community Design as an autonomous Union-law claim in the Regulation (Article 102 CTM-Regulation; Article 89 Design-Regulation) and which had left the other sanctions against the infringement (other claims as for information, damages, publication) to national law to be applied by the “Community Trademark Courts” or “Community Design Courts” meaning the national courts acting as functional Union courts.<sup>1</sup>

3. The proposed Article 6 regulates the conditions for a cease- and desist-claim in the case of a direct infringement (the accused form of the defendant fulfills all elements of the patent claim). The proposed Article 7 regulates the conditions for a cease- and desist-claim in the case of an indirect infringement (the defendant supplies objects which may be used in an intended direct infringement). The proposed Article 8 contains the usual patent-free areas and actions, Article 9 the established Union-law exhaustion-rule developed by the Court of Justice, both also followed the example of the CTM- and Design-Regulations.

*II. The Kraßer-Argument*

4. What were the objections against this parallel to these two Regulations? The main objection was that there would be referral questions from the new Unified Patent Court to be constructed under the intended Agreement on such a court. That was indisputably true, because also the interpretation of Article 102 CTM-Regulation had to follow the guidance of the ECJ. However, even under the very active referral-practice of the CTM Courts there had been few referrals regarding Article 102 CTM-Regulation and the most important referral (*DHL v Chronopost*)<sup>2</sup> had been decided only in 2011, after 11 years of existence of that Regulation.

<sup>1</sup> See: Opinion of Attorney General *Cruz Villalón* of 7.10.2010 in the case C-235/09 *DHL Express France v. Chronopost*, nr 20–26.; *Tilmann*, in: *Festschrift Thomas Reimann* (2009), 493 ff.

<sup>2</sup> C-235/09 of 12.4.2011, GRUR Int. 2011, 514 ff.

5. Certainly more referrals were to be expected regarding Articles 6 and 7, since, differently from Article 102 CTM-Regulation, they are spelling out the details of the conditions for fulfilling the requirements of these rules. Prof Rudolf Kraßer, the author of the leading book on patent law in Germany,<sup>3</sup> described, in an Opinion asked for by the European Patent Lawyers Association, all questions of interpretation and application which had arisen in Germany in the past, and they were quite a few.

6. On the other hand, many of these questions had already been solved by court decisions Germany in the past and ably commented in Prof Kraßer's book. The same is true for other Member States regarding the same or very similar provisions which had been common property of the national law of EU Member States since the Luxembourg Agreement of 1985/1989, national law provisions anticipating the entry into force of that Agreement which, unfortunately, never happened (five states not ratifying it).

7. It will not be necessary to start all over again in submitting all these questions to the ECJ, because of the *acte-claire*-doctrine. In applying the most recent practice of the ECJ regarding that doctrine,<sup>4</sup> according to which the question must be *claire* not only to the court dealing with it but also to the courts of other Member States, the Unified Patent Court will be permitted and obliged to take account of the common practice of the patent courts of the EU Member States regarding these same or similar provisions in their national law which will correspond to Articles 6 and 7. And this practice has been following largely the same line. Therefore, many interpretation-questions regarding the details of Articles 6 and 7 will be regarded as *claire* by that new court. Even considering the psychological impact of the rules on cooperation of the Unified Patent Court with the ECJ in the Agreement, obediently reinforced after the Opinion of the ECJ 1/09 of March 2011,<sup>5</sup> the Unified Patent Court will not have to ask the ECJ unnecessary questions, unnecessary because they have already been answered in the same way by the national courts.

8. Still, the argument of possible referrals to the ECJ on the specific requirements of Articles 6 and 7, let me call it the "*Kraßer*-argument", was legitimate, ie correct from a legal point of law, even if one could debate about the number of these referrals. However, as the cases referred to in the Opinion of Prof Kraßer show, the requirements of Articles 6 and 7 are not technical in the meaning that they require the knowledge of technical patent law to solve them. These provisions are defining the border-line of patent-law to public use ie patent-free use, free commercial competitive behavior. They belong to the sort of questions the ECJ has to answer for defining the border-line of CTMs and free use. They have neighboring questions in the fields of exhaustion-law and competition law and they describe the tort-law actions against infringing practices. Taken together, one can even say that the ECJ should have a say in defining these border-lines between the patent right and competition, since he is the ultimate controller of a functioning competition, of the free movement of goods and services and the functioning of the internal market.

9. This is true all the more for the Articles 8 and 9 defining the patent-free acts for the reasons of special protected interests (Article 8) and for the free movement of goods (exhaustion-rule in Article 9). Without one protective rule (sanction) in the Union-Patent-Regulation these restrictive rules would have no place in the Regulation (they would be "restricting a *nullum*"). Their place would, then, be in the Unified Court Agreement. As far as they reflect Union law rules they would, also in that position, be a matter for referral questions to the ECJ.

10. This leads to another aspect of the question of the "opposition" how to avoid referrals to the ECJ. If Articles 6 to 9 would be referred to the Unified Court Agreement the Unified Court would not "escape" the ECJ: Not only the Union-law parts of Articles 8 and 9 would be a matter for referral questions. Also the cease-and-desist claim, then regulated in the Court Agreement also for the Union Patent (it exists there already for the classical European Patent), would be matter for referral questions, at least under the aspect of the Enforcement Directive. The general rules of Article 3(2) (effectiveness, appropriateness) would govern its applicability. Whereas, if they stay in die Regulation they would be subject only to their own autonomous regime. Surely, if transferred to the Agreement, the detailed requirements for a cease-and-desist-claim as regulated in Articles 6 and 7 of the Regulation would not be matter for referrals.

11. With these qualifications (number of cases, neighborhood to established ECJ-matter, subjected to referrals also in the Court Agreement) the *Kraßer*-argument is standing out as a legally correct argument of the "opposition's" wish to transfer these rules to the Unified Court Agreement.

### III. The EPC-Argument

12. This cannot be said of the second argument of the opposition that the ECJ might use (misuse) referral questions on the specific requirements of Articles 6 and 7 for expanding his jurisdiction to the technical rules of the EPC on patentability. This fear is unfounded for a number of reasons: (1) the Unified Patent Court would not ask the ECJ on the interpretation of EPC-rules, since they are not part of Union-law. (2) The ECJ normally sticks to the questions asked and refrains from questions he is not asked. (3) The ECJ will reject questions concerning other than EU law and will not, himself, extend answers on Union law to answer also EPC-questions.

<sup>3</sup> Rudolf Kraßer, *Patentrecht*, Ein Lehrbuch und Handbuch, 4. Aufl. Munich 2001.

<sup>4</sup> *Callies/Ruffert-Wegener*, 4th ed 2011, AEUV Article 267, note 32.

<sup>5</sup> GRUR Int. 2011, 309 ff.

13. EPC-questions outside the jurisdiction of the ECJ are: revocation-rules (Article 138 EPC), scope of protection rules (Article 69 EPC and Protocol thereto), the block-grant-effect and the block-revocation-effect (Article 142 EPC) and the block-transfer-effect (Article 148 EPC) (the Article 142 EPC-effect and the Article 148 EPC-effect being triggered by Article 3 (2) of the Regulation).

14. To summarize: The only valid legal point of the “opposition” were the expected referrals of the Unified Patent Court regarding the specific requirements of Articles 6 to 8 (and 9) of the Regulation, the *Kraßer*-Argument with its limits indicated in Nr 4–11, above.

#### IV. The “Opposition” Movement

15. The “opposition” started in the Expert Committee of the Commission where the UK position, since a long time skeptically observing the growing influence of the ECJ practice on the national courts, met support from other members. It coincided with a certain frustration of the members when the political actors (Council, Parliament) took over the steering-wheel, reducing the influence of the Expert Committee. Both motives combined resulted in a furor which soon, like a bush-fire, jumped over to the European Patent Lawyers Association (EPLAW), the Venice Judges Meeting 2011, a UK Group submitting a Paper on Principle Objections, large enterprises, the ICC, the American Chamber of Commerce, the CBEE, FICPI and others and to a small group of Member States in the Council (UK, Sweden, Finland).

16. The view of this opposition, for which the whole package of the two Regulations and the UPC Agreement soon seemed to become worthless, if their view was not followed, was eloquently and forcefully presented by Ms Wigström (Deputy from Sweden) in the Legal Affairs Committee of the European Parliament during its session on 21 November 2011.

#### V. The Article 118 TFEU-Argument

17. Only at a late stage of the discussion, the requirements of Article 118 TFEU, the basis for the Union Patent Regulation, became part of the discussion and noticed by the “opposition”. Actually, the risk and burden of referral-questions to the ECJ concerning the detailed requirements of Articles 6–8 of the Regulation had to be weighed against the danger, that the Regulation would lose its legal base in Union law, if these Articles (and Article 9) were transferred to the UPC Agreement.

18. Article 118 TFEU defines the “European intellectual property right” and the “measures” creating such right by the effect of a “uniform protection”. From this wording it seems to follow that the Regulation cannot be based on Article 118 TFEU, if it does not contain at least one “measure” (claim, sanction) for “protecting” the Union Patent in a “uniform” way. The uniformity of the EPC granting and revoking-rules has nothing to do with “protection rules”. The scope-of-protection-rule of Article 69 EPC (plus Protocol thereto) applies already to European Patents. Article 3 (2) of the draft-Regulation apparently is intended to *add protection* for the European Patents with unitary effect.

19. This was the view of the Judicial Services of the Commission, of the Legal Committee of the Parliament and of the great majority in the Council.

20. Against this view, Prof Kraßer had included in his Opinion the following remarks:

*3. 3. Mindestvoraussetzung für die Anwendbarkeit der Ermächtigung ist nach Art 118 Abs 1 AEUV lediglich, dass ein Rechtstitel, ein intellectual property right, durch Unionsrecht geschaffen wird. Schon dies bewirkt das erforderliche Minimum an Vereinheitlichung jedenfalls dann, wenn im Recht der (teilnehmenden) Mitgliedstaaten Gegenstand und Kernwirkung des in Frage stehenden Rechts übereinstimmend verankert sind.*

*... Deshalb kann sich die in Aussicht genommene Verordnung darauf beschränken, die Grundlage dafür zu schaffen, dass für die teilnehmenden Mitgliedstaaten einheitliche Patente erteilt werden.*

*... Für den in Art 118 Abs 1 AEUV geforderten einheitlichen Schutz (uniform protection) und die „gleiche Wirkung“, von der Art 3(2) des Verordnungsvorschlags spricht, genügt die Einheitlichkeit der vorbezeichneten Kernwirkung ...*

21. In a free translation, this argument runs as follows: It is sufficient, under Article 118 TFEU, to create, through Union law, an industrial property right. This already creates the necessary minimum of harmonization, at least if the object and basic effect (*Kernwirkung*) of the relevant protective sanction is enshrined in the national laws in the same way. Therefore, the argument continues, the Regulation can confine itself to create the basis on which unitary patents may be granted for the participating member states. For the uniform protection under Article 118 TFEU and for the “unitary effect” Article 3(2) of the Regulation, speaking of the unity of the basic effect (*Kernwirkung*), is sufficient.

22. Legally, this argument amounts to leaving the “uniformity” of the protection for the EU member states to regulate. According to Prof Kraßer they have already basically achieved uniformity. If that were true (it is not), would that uniformity continue to exist? Would any deviation by some member states let the European IP-right-character fall away? Can Article 118 TFEU be construed as permitting the EU legislator to let his

intention to create a “uniform protection” being realized by the member states without guidance as to its contents and without obligation? Would the Regulation, after the deletion of Articles 6–8, be not “nothing more than an empty shell”, as Deputy Rapkay put it in the Legal Committee’s meeting of 21 November 2011?

23. The said argument would run against the apparent meaning of Article 3(2) of the draft-Regulation which is intending to add something regarding protection to that which is already existing for European Patents on the national level which would have to be applied according to Article 64 EPC. If the argument were correct, the Regulation would add nothing on the side of protection.

24. This argument would run further against the wording of and the *effet utile* intended by Article 118 TFEU. From the wording of that rule it follows clearly that the “measure” by which the European industrial property right” is “created” must *in itself* contain and *through itself* provide for a “uniform protection”.

25. This follows also from the legal history: The Lisbon fathers of that Article had the examples of the CTM-Regulation (Article 102) and the Design-Regulation (Article 89) before them which had provided for an at least partially uniform protection (cease and desist claim or order). The new rule, apparently, tried to generalize these examples for these and other European IP-rights.

26. Therefore, the interpretation Attorney General *Villalón*<sup>6</sup> as well as the ECJ<sup>7</sup> have given to the concept of EU-wide “protection” under Article 102 CTM-Reg. in the case 235/09 (DHL v Chronopost) will be the most likely interpretation of “uniform protection” under Article. 118 TFEU: safeguarding the unitary right by a court order and the enforcement of that order. This means for an EP with unitary effect: substituting the national protection, to which Article. 64 EPC is referring, by a protection rule on the Union law level.

27. Prof Sir Robin Jacob, member of the Group of Experts of the Commission and President of the Patent Judges Association recognized the inherent weakness of Prof Kraßer’s argument (according to which “uniformity” may depend from the willingness of the member states to regulate the protection in a similar way, at least “basically”, see Nr 23 and 24). Jacob had first argued in two Opinions (like Prof Kraßer) that it was sufficient, regarding the requirements of Article 118(1) TFEU, to have Article 3(2) of the Regulation state that the Union Patent will have a unitary character and enjoy “uniform protection”. The participating Member States would, then, be free to collectively spell out what the “uniform protection” would be. In a third paper he proposed adding a sentence that the participating member states must collectively provide for a uniform protection. Legally, that would amount to a sort of delegation: delegating the determination of the contents of the “uniform protection” to the participating Member States. It would be a kind of “Directive within a Regulation” without at least indicating the necessary contents of its realization, certainly a bold construction.

28. In my opinion, also this compromise would not be in line with the wording and meaning of Article 3(2) of the draft-Regulation and of Article 118 TFEU. There was, at least, a serious risk, that the view of the Judicial Service of the Commission, the Legal Committee and the majority in the Council was correct and would be shared also by the ECJ. Any defendant in a Union Patent case before the Unified Patent Court would have argued in this direction, and the UPC would have had to refer this question to the ECJ. There would have been a high risk that the Regulation would be declared null and void because wrongly based on Article 118 TFEU.

29. The ECJ, already alarmed about the danger of not being included in the process of interpreting Union law (Opinion 1/09) in cases before the Patent Court as designed before March 2011, certainly would have noticed the fervent attempts of the “opposition” to leave him out of the patent-cases before the newly constructed UPC. Therefore, a referral to him on Article 118 TFEU would have to be argued before him in a very difficult atmosphere. And it would be known to the ECJ that the EU legislator saw this risk and, then, acted “with eyes shut”. Surely, the Union legislator should not have run that risk.

#### VI. *The decision in the Legal Affairs Committee*

30. Weighing the expected burden of referrals described in the *Kraßer*-Opinion (with its limited weight, see nr 3–10, above) against the serious risk of invalidity of the Regulation the Legal Committee of the European Parliament rightly decided that the latter risk had more weight: There must be a clear and safe legal support basis for the Regulation in the Union Law. This was explained convincingly by the Chairman of the Legal Committee, Mr Heiner Lehne in the session of the Legal Committee of 21 November 2011 after the intervention of Ms Wigström.

31. This opinion prevailed in the Legal Affairs Committee on 19 December 2011.

#### VII. *Final appraisal*

32. The campaign conducted by the “opposition” was ill conceived from the beginning. The requirements of Article 118 TFEU were overlooked or disregarded, at least played down, almost until the very end. The limited practical impact of the *Kraßer*-argument was not realized; the dimension of the debated problem grew out of proportions. During the campaign the debate on this specific problem got mixed up with the fears of

<sup>6</sup> See Footnote 1.

<sup>7</sup> See Footnote 2.

certain quarters of practitioners (lawyers and judges) as well as enterprises (large pharmaceutical and IT firms) who felt they could lose in the new system. Thereby, it damaged the credit of the whole project.

33. One of the side-tones in the debate which appeared to me as being especially inappropriate were certain warnings against the quality of possible ECJ-decisions and answers of the ECJ to referrals on Articles 6–8. In the opinion of a great majority of the Union law scientists and observers the ECJ is the best functioning institution of the Union. The ECJ has been very active in the field of trademark law. One may not agree with all his decisions, but generally speaking his practice is impressively good. The requirements of Articles 6–8 are not of a quality unknown to the ECJ (see nr 8 and 9, above). There is no reason to believe that he will not answer Articles 6–8-referrals with the same competence.

28 January 2012

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**Written evidence from the Office of the City Remembrancer,  
the City of London Corporation**

1. The City Corporation recognises the serious concerns which have been expressed about the current proposal by professional representatives, particularly in relation to questions of language, the involvement of the C.J.E.U., and the potential for British businesses to fall subject to “bifurcated” proceedings. The Corporation is not a specialist body, and accordingly is not best placed to comment on these issues, or indeed on other technical details of the proposal. Accordingly, this submission proceeds on the assumption that a satisfactory agreement can be reached on the substantive questions under discussion, so as to secure a unified patents system which attracts the confidence of practitioners while bringing wider economic benefits for the Single Market.

2. On this basis, the City Corporation affirms its strong support for London as the home of the Central Division of the proposed Unified Patent Court, and welcomes the Government’s efforts to secure this outcome at the negotiating table. The essential consideration is that the proposed system must be capable of attracting major international clients, if it is to be a success for the E.U. This makes it important that the Central Division is located in a city with global commercial reach, an established reputation for legal excellence, and the material and human infrastructure to support it. On the basis of these criteria, London—as Europe’s preeminent centre for the international provision of legal and other professional services—would appear to provide the natural choice.

3. The extent of the success of London’s legal sector in attracting the confidence of international clients is demonstrated by a report of TheCityUK published in 2011.<sup>8</sup> On the latest figures then available, from 2009, over half of the total revenue of the 100 largest law firms in the U.K. (some £13.7 billion) was generated by international firms based in London. Around 90% of disputes handled by international firms in London involved at least one party based outside the U.K., and the same was true of some three quarters of cases brought to London’s Commercial Court. Net exports of legal services from the U.K. amounted to some £2.5 billion, the major part of which was attributable to firms based in London. A further indication of London’s unrivalled strength in dispute resolution is provided by a study on international arbitration published by White & Case in 2010.<sup>9</sup> In a survey of global corporations, 30% expressed a preference for London as the seat of international arbitration; its closest competitors were Geneva, on 9%, and Paris, on 7%.

4. The City Corporation has strongly supported the efforts of the Government and professional bodies to maintain and enhance London’s competitive position in the legal sector. This coordinated commitment has most recently been manifested in the opening of the Rolls Building in the City of London (for which the City Corporation provided advisory services and other non-pecuniary support). This building—a state-of-the-art centre for the adjudication of a comprehensive range of commercial disputes, including those involving intellectual property—is the largest of its kind anywhere in the world, and its opening demonstrates London’s continuing resolve to offer an attractive and accommodating destination for international litigants. To coincide with the opening of the Rolls Building, the City Corporation has been working together with TheCityUK, the Bar Council, the Law Society of England & Wales, and members of the English judiciary on the “*Unlocking Disputes*” campaign, which aims to promote London’s dispute resolution capabilities to a global audience.

5. It has already been widely remarked that other countries already host European intellectual property institutions: for instance, the E.P.O. in Munich, the Plant Variety Office in Angers, and the Office for Harmonization in the Internal Market (Trade Marks and Designs) in Alicante. On this point and more broadly, it might be argued that the U.K. has a comparative dearth of significant European institutions, given its size and importance. In this light, the location of the Central Division in London would serve as a valuable affirmation of the prominent role played by London and the U.K. in the Single Market.

6. Aside from the general points made above, London has many obvious advantages in specific relation to patent litigation. Its specialist courts boast an undisputed technical and legal expertise among judges and advocates alike, and a long-standing track record of adjudicating on the most complex and challenging disputes. English is, increasingly, the international language of choice in commercial and scientific fields, as is pertinently demonstrated by the fact that some 55–60% of patent specifications filed at the E.P.O. are written in English

<sup>8</sup> TheCityUK, “Legal Services Report 2011”, February, 2011.

<sup>9</sup> White & Case LLP, “2010 International Arbitration Survey: Choices in International Arbitration”, October, 2010.

(compared to approximately 30–35% in German and 10–15% in French).<sup>10</sup> Moreover, given that the prospect of bifurcated proceedings has given rise to significance concerns among practitioners and businesses alike, London has the benefit that its practitioners and judges are already well used to resolving disputes about patents in a speedy and effective manner without recourse to bifurcation. As the willingness of the Central Division to resolve questions of validity in a timely manner is essential to counteract the potential disadvantages of bifurcation, London would make the optimal choice.

The international provision of professional and business services is set to form an increasingly important part of Europe's competitive position in the global economy. The City Corporation firmly believes that London's success in these areas should be viewed as an important asset not just for the U.K., but for the E.U. as a whole. The situation of the Central Division in London would capitalise on London's long-established strengths, in order to maximise London's contribution and that of the Unified Patent Court to the future prosperity of the Single Market.

7 February 2012

### Written evidence from the SME Innovation Alliance

#### AN OPEN LETTER FROM THE SME INNOVATION ALLIANCE

##### UNITARY PATENT COURT—SMEs NEED SERIOUS REVISION FOR IT TO HAVE ANY VALUE

News reaches us that one of our member UK companies is planning on burning their UK patent in front of Parliament later this week as, for them, it has no value. Our membership has vast sympathy for his situation and many will be cheering that someone has finally escalated this to a level that politicians cannot ignore. The owner in this case claims the patent is infringed but there is no way his SME can enforce it because of court barriers.

So will the Unitary patent be of any value to an innovative UK SME based upon what we hear? The short answer is a resounding no.

#### *Government officials are unaware of the real problems SMEs face*

At the February 2012 meeting of the SME Innovation Alliance, HHJ Birss of the UK Patents County Court and John Alty, Chief Executive of the UKIPO addressed patent holding SMEs. These speakers seemed shocked at the widespread dismay expressed by SMEs through ongoing failings in the "patent system". They seemed almost as surprised as the EU Commissioner responsible for research, innovation and science who, last September, was made "*abruptly aware of the barriers facing would-be innovators at the Nobel Prize awards ceremony dinner*"—"generally embarrassing the hell out of me".

At present, the patent system encourages corporations to steal EU inventions. There is no UK penalty whatsoever for infringing a patent. Your Unitary patent deliberations so far appear to continue this trend. We are only one year on from the UK Hargreaves Report, which was fatally flawed, it did not understand that when the big corporations all reported that "*the system was working well*", that was an exact statement of the problem.

#### *SMEs account for over 95% of radical innovation*

A Japanese Ministry Study (METI) found that out of all the radical inventions created since the second world war, over 95% came out of companies employing less than five people. And 54% of all radical inventions were British. So why does Britain not lead the way today? One crucial reason is an inability for SMEs to enforce their patented inventions. This is not shocking news; the 2000 EU report "Enforcing small firms patent rights" discovered that, from the large number of respondents, every single valuable EU invention that an SME held had been copied at least once (by in every case at least one US infringer) yet not one EU SME had been able to enforce their patent. There are a number of other empirical studies that detailed similar findings.

The large corporations (less than 5% of radical inventions) pay IP lawyers and patent attorneys vast sums to break patented SME inventions so that they can remove them or take over and control them. That often means burying them as well as slowing down progress as that would otherwise disrupt their established marketplace. That cannot be in the public interest. Yet such corporate representatives are referred to as "users" by your committee which strikes us as a sad reflection of the loss of focus of the real needs required from a patent system. The system should reward innovation and encourage growth; not encourage unchecked copying by only those with enough financial muscle who use patent courts to prevent an SME from enforcing its patented rights.

#### *Will the proposed Unitary patent court benefit SMEs to create growth and jobs?*

We have listened to the exchanges that you have so far had with "witnesses", none of who represent patent holding SMEs, and also to the Minister for Intellectual Property and her UKIPO and BIS advisors who failed

<sup>10</sup> Figures from Dialog LLC, "European Patents Fulltext", "Bluesheet" #348, November, 2009.

to tell you about the problems with courts that SMEs face. Any granted Unitary patent has to be easily enforced. This is not just a wish but actual law. It should adhere with the enforcement provisions within TRIPS (Article 41)<sup>11</sup>—something the UK currently clearly breaches as enforcement is not possible for almost all SMEs in UK courts. The Unitary patent court follows this same path and will therefore not comply with TRIPS. No serious growth can result from such a system in which only corporate patents can be enforced. Remember, these firms are reported to account for less than 5% of innovation.

All the “evidence” provided by legal individuals that you have heard has made a huge assumption which is that patent disputes should be tried in a court. We can imagine that the legal minds amongst you will find any alternative difficult to comprehend but the court proposal cannot deliver growth. This significant and questionable assumption costs billions of loss from the European economy as many SMEs lose the very foundation upon which they were built ie patent protection because of the patent court system.

#### *How can infringement be properly considered?*

A patent is supposed to be a public disclosure of an invention including how to implement it. It must be written so that it can be understood by a “person of ordinary skill in the art” (POSITA) so that innovation can be disseminated and more innovation encouraged.

To put that another way, a patent is going to be incomprehensible to someone who is not a POSITA. This latter category includes judges. The concept of establishing infringement in a court of law with decisions made by a judge as to how a patent should be interpreted is fundamentally flawed. Binding decisions on infringement should be made by a panel of appointed experts in the field of technology in question. That would be a major step forwards for a Unitary patent and create certainty—uncertainty something you have heard as often being the situation within patent courts. An appeal to a court is necessary to comply with TRIPS (Article 41.4), but such an appeal can be made subject to it being entirely at the cost of the party challenging the ruling—such costs to include that of the party facing the challenge and not just restricted to legal fees. Now is your opportunity to implement that first important change.

#### *How can patent validity be properly considered?*

In order to obtain grant, patents have been examined and approved by technically qualified patent examiners (who represent the authorities official POSITA). Opportunities to challenge the validity of any patent are already open during the application process similar to that available when someone is applying for planning permission to be considered by experienced planning officials. It comes as a shock to most SMEs to find out that lawyers can attack the decisions of patent examiners—almost always when their client is accused of infringement. Their challenge is made simply to avoid licensing that patent ie costing the economy growth and jobs. Even decisions made in previous court cases can be retried which is plainly absurd and damaging to any innovative business. Having a court using non POSITAs reconsider patent examiners validity decisions leads to confusion and inconsistent results with many patents being held dubiously invalid. This is precisely what happens in the current UK system which now faces a patent burning ceremony as the patent does not deliver what is sold by the UKIPO to SMEs, which is that of “protection” ie enforceable rights. Either the patent examination process is accepted or it is not in which case the EU and many countries could dispense with thousands of patent examiners and replace them with a registrar.

If all of a granted patent is open to challenge then patent examiners are redundant. If their work is unsatisfactory, then address that. Instead SMEs have to assume responsibility and pay with their business when opponents challenge a granted patent—the cost of a challenge usually being sufficient to sink the SME or, at minimum, its patent.

Most challenges attempt to ascribe different meanings to words in the patent that the patent examiner had to have used eg “prior art”, deficient specification. Patent examiners do not appear in court, which seems an obvious failing as it is their decisions that are challenged, thus making this process open to a great deal of abuse. Anything relevant will, of course, have all been examined by the patent examiner in order to allow grant or reject the patent application so such challenges should not be allowed.

Even infringement is usually based upon trying to ascribe different meanings to that in the patent claims.

#### *Courts create costs that are simply unaffordable for the vast majority of inventors*

All these processes rack up enormous costs, and we do not refer here to only legal costs and fees but those borne by the SME itself. It has to pay for its management and staff to travel, stay in accommodation and be diverted away from their business. Studies show that most SMEs with patents are the best source for more innovation so any significant diversion costs the economy dearly. Indeed, so expensive are these proceedings

<sup>11</sup> Article 41

1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse.

2. Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

in the UK that no SME can actually commence a case because of the high barrier of these different costs. The Patents County Court recent change to limiting paying the other side costs to £50,000 was inexplicably linked to limiting the maximum royalties payable to £500,000 irrespective of the value of that infringement. Although these are referred to as “damages” there is no UK penalty whatsoever for infringing a patent which of course only encourages infringement—“damages” are only unpaid royalties. Bizarrely and quite incorrectly, the PCC change assumed that the value of a patent is linked to the size of the business that owns it. There is absolutely no such link—the value depends *only* upon the invention and the marketplace that it addresses or creates. The PCC £500,000 damages limit of course makes it utterly useless for any Unitary patent. It is admitted that the PCC has the only UK judge experienced in IP.

These processes will take yet another twist with a Unitary patent through variations of meanings on any translation of the native language should courts be employed—making SME patent enforcement even less possible. Translating the claims of a patent into a different language immediately offers yet more language nuances that lawyers can pounce upon given half a chance. A court process will increase patent invalidity and produce less infringement. None of this encourages growth and nor does it create jobs, quite the reverse of what you have been told.

*Court findings often damages the economy*

Worse than that is the patent specification is made public by the State so an “invalid” patent is still free to copy by all and sundry. Given that invalidity often hangs on legal technicalities, subsequent invalidation is simply damaging to the entire concept of registering a patent in exchange for exclusive rights of sale, manufacture and so on. A bargain is a bargain and should not be open to change once agreed (ie patent grant).

Baroness Wilcox suggested in her second session with you that the US system was “*fast, efficient and inexpensive*”. We believe she may have confused the cost of registering a patent (which she has also got wrong) with the question being addressed—that of court proceedings. A typical US patent court case takes many years and costs many millions of dollars. It is incredibly rare for a European SME to win through the US system with perhaps the case of Håkan Lans the most significant example. He was awarded by the European Patent Office the most prestigious honour of European inventor of the year (2007), the US in contrast found his patent invalid and thus entirely worthless. His disclosed invention is now installed as standard on every aircraft and every ship over 300 tonnes.

We respectfully urge you to stop the nonsense that prevents SMEs from enforcing their patents, particularly a court system that can only worsen that process. We would like you to ask why other, far more accurate and reliable approaches such as technical binding arbitration, are not being considered given this important opportunity. Otherwise our fear is that SMEs will all go elsewhere where innovation is actually supported or perhaps take a lead from the burning patent ceremony. Growth and jobs will remain elusive. It is now in your hands to stop the rot that has damaged European innovation for far too long and do something positive.

27 February 2012

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