

European Scrutiny Committee

Draft agreement on a Unified Patent Court and Draft Statute

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Written evidence from the Office of the City Remembrancer
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Enforcement of patent rights

EPLAW Position on the Draft Regulation Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection (the “Regulation”) and on the Draft Agreement on a Unified Patent Court and Draft Statute (“the Agreement”)

Submission to the European Scrutiny

In preparation for Oral evidence to be given on January 25, 2012

There are important reasons underlying the proposal for creation of a unitary patent and making available a specialized court having jurisdiction for the enforcement of such unitary patents. These are (1) to achieve substantial savings in costs and effort for enterprises that desire patent protection in the EU member states participating in the enhanced cooperation, and (2) when enforcing such patent rights, to ensure expeditious and high quality decisions, by specialized judges, which will be effective across all participating states. It is the opinion of EPLAW that the present drafts of the Agreement¹ and Regulation, for various reasons, fail to accomplish such aims. Many of those reasons are addressed in the Fiftieth Report of the European Scrutiny Committee.

1. The proposed system is burdensome and expensive, in particular from the point of view of SMEs. For example, a German patent owner could sue his English competitor alleging infringement of his patent, which was drafted in German, in any participating country where the English competitor made sales; the English defendant would then have to defend himself in the language of the court chosen by the patentee. This situation may be aggravated further where the alleged infringer defends himself by challenging the validity of the patent. In certain cases the question of validity may also have to be decided in the language of the infringement court. However, under the bifurcated system the infringement court may refer the question of validity to the central division, whose seat is yet to be decided, where a different language regime may then apply. The judgments from the courts of the unified system will have effect in all 25 participating member states. It is self-evident that language barriers still exist and will play a major role in the cost of bringing, or defending, patent litigation. The language and consequent translation requirements will be particularly burdensome for SMEs.
2. Another example of the shortcomings of the proposed system is the possibility for referrals to the CJEU / ECJ under articles 6 - 8 of the Regulation which deal with infringement of the unitary patent. This will no doubt delay decisions in infringement cases by years and at the same time significantly increase cost and expense for litigants. This is clearly and totally against the purpose of the entire project to achieve savings in costs and efforts, (particularly for SMEs) and to ensure expeditious, high quality decisions.
3. A fundamental objective of the project is to avoid decisions by inexperienced judges, particularly in courts of first instance, by centralizing patent cases before

¹ The most recent version of the Agreement is *limité* and not publicly available. However it not understood to have been revised materially from the draft dated 19 October 2011.

specialized courts and judges. The proposal as it stands aggravates the deficiency of the current system by turning the situation upside down since the CJEU, as a court of appeal for infringement of unitary patents, will be far from specialized. In any event, much effort is intended to be made to secure experience in the local divisions and in creating a central division and a court of appeal which are structured and designed specifically to meet the particular challenges of patent law. However, on questions of infringement of the unitary patent under articles 6 - 8 the final say will now lie with the CJEU which completely lacks all the characteristics and features commonly accepted as requirements for a court that can render quality decisions and which will not be restructured to meet those characteristics and features. Further, the judges there will not have to go through the selection and training process that will be required for judges at the specialized patent courts.

4. The inclusion of articles 6 - 8 in the Regulation is not required to make the proposed new system compatible with EU law. Nor is it necessary for the purpose of achieving uniform protection of a patent under the new system. Uniform protection will arise upon request for unitary protection. The grant of any patent with unitary effect is scrutinized on a uniform basis, the patent with unitary effect is interpreted on a uniform basis and the infringement and revocation rules are uniform as well. It is difficult to understand the logic of articles 6 - 8 being included in the Regulation as currently proposed. On the one hand they mean that some aspects of patent law relating to infringement would be governed by EU law but others would not be. The opinion of Prof Kraßer (annexed hereto) provides good guidance on this issue. The inclusion of article 6 -8 in the Regulation will inevitably lead to a number of very difficult problems. On the other hand, if it were correct that articles 6 - 8 need to be implemented into the Regulation, then surely the same would have to apply to all other matters of substantive patent law, namely what amounts to a valid patent and how the scope of the patent should be defined. However, surprisingly, this is not argued by those in favor of including articles 6 - 8 into the Regulation. Finally, since the Regulation will not apply to litigation of European (EP) patents in the proposed unified courts there remains the concern that references to the CJEU on matters of infringement of the unitary patent will inevitably create a separate, parallel body of patent law than the existing law, based on the European Patent Convention (EPC) and upon the national laws, which have already been substantially harmonized by statute as well as by case law.
5. It is premature to conclude any agreement on the new system. Important open issues include (1) the fees payable by the users of the new system (this again is vital for SMEs), (2) the allocation of costs and revenues to the participating states (which will play a role in some states' decision on whether or not to create a local division of the court which in turn again is of importance for SMEs), (3) the draft procedural rules², which presently contain more than 400 provisions, will require an enormous effort to find compromises between the participating states on fundamental aspects of civil procedure law to ensure a harmonized, expeditious and appropriate procedure for all type of cases, and, not least, (4) the amount of

² The current draft of the "Preliminary set of provisions for the Rules of procedure of the European and Community Patents Court" is dated 16.02.2009.

recoverable costs that a successful litigant may claim. Those issues must not be left for later discussion but should be addressed before any agreement to implement the proposed system is concluded.

6. There should remain available a permanent option for parallel national litigation for European (EP) patents. It should be up to the patent applicant whether or not, by requesting unitary effect for its EP patent, it opts for the unified court which is primarily linked to the unitary patent.
7. Of great concern also is the issue of legal privilege. There must be absolute certainty that in the highly sensitive area of innovative technology business and commercial secrets are safeguarded in the course of litigation, as well as any legal advice that may be given to a party. If privilege is not addressed satisfactorily then parties to litigation in the unified court may find themselves having to disclose litigation documents that would have been treated as privileged in eg UK litigation, in the context of parallel US litigation for example.
8. As presently drafted, the 7 year transitional period during which holders of, or present applicants for, European patents may opt out of the unified litigation system, is too short. Disputes about patent infringement very often arise towards the end of the 20 year patent protection period. Accordingly, it will only be possible to evaluate the viability of any new system, and its acceptance by its users, after more than 7 years. It is foreseeable that by then there may only have been a small number of cases dealt with by the unified court system.
9. The present drafts of the implementing documentation lack a termination clause. Accordingly, in the worst case scenario where the unified court system is not functioning in the proper interests of the users (in that it fails to achieve the aim of providing a high quality, expeditious and cost effective system) there is no possibility of terminating the arrangement to allow participating countries to revert to the existing national litigation system for European (EP) patents.
10. The present drafts allow the parties to be represented before the unified court alone by patent attorneys (i.e. not by lawyers (advocates)). Representation by technical professionals who are not educated in substantive civil law, various aspects of which often arise in the course of patent infringement litigation, and who are not experienced in civil litigation procedure, is not likely to facilitate the efficient handling of cases before the various multi-national local and regional divisions of the unified court, nor before the central division or the court of appeal. It is noteworthy that patent attorneys have no right of representation before the CJEU. It is also to be noted that the admission of patent attorneys to represent clients alone before the unified court is not welcomed by judges (eg Resolution Venice II of the Intellectual Property Judges Association (copy annexed hereto); Presentation by a presiding judge of a German Higher Regional Court).
11. The draft Agreement makes clear that it applies to Supplementary Protection Certificates (SPCs – certificates that extend the life of patents for drugs and for pesticides that have received regulatory approval to be sold in the EU) and that the unified court shall have exclusive competence for infringement of SPCs.

However, SPCs are made available under the EU's SPC Regulations 469/2009 and 1610/96 which make clear that they are national rights. It may therefore be necessary to amend these regulations in order for SPCs to be available and enforceable in a unified system. Thus it is presently unclear how, and on what basis, SPCs will be granted with unitary effect and how they may be enforced, or their validity challenged, in the proposed unified system.

13 January 2012

Written evidence from Henry Carr QC, Chairman, Intellectual Property Bar Association

Evidence in Writing for the European Scrutiny Committee: Draft Agreement and Regulation on a Unified Patents Court

Introduction

1. At present, European Patents are granted by the European Patent Office in Munich. The patentee is granted a basket of rights which can apply throughout Europe. However, in order to enforce those rights, the patentee has to sue in the national courts of different member states, which is costly and can lead to inconsistent results. For this reason, the *theory* of a Unified Patents Court has long been thought desirable.
2. However, the *practical application*, as expressed in the current draft Agreement and Regulation, has highly detrimental consequences. It is being rushed through, in spite of widespread opposition from the IP judges, the patent professions and industry.
3. The Council of Bars and Law Societies of Europe ("CCBE") is the representative organization of about one million lawyers. The Report of its Working Group on Patents dated 12th December 2011, in relation to the Unified Patents Court, states that:-

"It is apparent that the proposed Court system will not meet the goals of being accessible and affordable, especially for SMEs. The CCBE finds that the proposed system, as the proposal stands, will increase legal uncertainty and increase cost.

The CCBE is concerned that speed is now an overriding purpose carrying with it the risk that the result will be a system which users will refuse to accept. "
4. Similar concerns were expressed by the CBI, the IP Federation, the Bioindustry Association and others (including the Intellectual Property Bar Association) in a letter to Baroness Wilcox dated 16th December 2011. Whilst expressing the hope that it should be possible to finalise the project under the Danish Presidency "with calm and thoughtful discussion", the letter expresses great concern that "the pressure to reach an agreement quickly will result in a system which could undermine innovation and growth".

5. The main problems are as follows.

References to the Court of Justice of the EU (“the CJEU”)

6. Articles 6-8 of the proposed Regulation contain provisions on direct and indirect infringement and limitations on such rights. This means that their interpretation will be subject to the preliminary ruling jurisdiction of the CJEU.
7. This is notoriously slow. It means that patent disputes will not be able to be resolved until the ruling has been obtained, which will add years to the proceedings, as well as additional costs. Further, the CJEU has no expertise in patent law and its procedures are not appropriate for cases involving complex technical subject matter.

8. At a general meeting of the Intellectual Property Judges Association on the 28th-29th October 2011, the Judges *unanimously* resolved that:

“they were against the proposed inclusion of Arts. 6-8 of the current draft Regulation into the final Regulation and that if they were included the new system would fail to achieve the object of a better system of patent litigation in Europe.”

There were 27 Judges present, of whom 24 were from EU member states.

9. In a Report dated 1 September/18 October 2011, Professor Rudolf Krasser of the influential Max Planck Institute gave examples of numerous questions that might require a reference to the CJEU and stated that the inclusion of Arts. 6-8 would:

“...lead to delays in the proceedings as well as additional cost and effort for the parties involved, thereby seriously counteracting the objectives of the enhanced co-operation. Similarly, the effects on the field of patent law would run contrary to the objective...of the rapid and effective enforcement of intellectual property rights.”

10. In an Opinion dated 2nd November 2011, Professor Sir Robin Jacob, who has unrivalled expertise in intellectual property, stated:-

“There is no time for anything other than plain speaking. I am fortunate enough to have had wide experience, as barrister, judge and now academic, with the patent system from all angles. I have many contacts amongst users and lawyers. I know of no one in favour of involvement of the CJEU in patent litigation. On the contrary, all users, lawyers and judges are unanimously against it.”

In a further Opinion he explained that the inclusion of Arts. 6-8 was unnecessary.

11. However, the Commission is not listening, and is ploughing on regardless. Furthermore, the Legal Affairs Committee of the European Parliament is also pressing on with Arts. 6-8. These Articles are likely to be contained in the

Regulation, given that the major political groups are backing it, without any regard to its implications.

Separation of Infringement and Validity

12. In an action for infringement, the validity of a patent may be challenged, for example on the basis that it lacks novelty or contains no inventive step. Invalidity is a defence to an action for infringement.
13. In the UK, validity and infringement are normally tried together. However, in Germany, they are separated, with the question of infringement being decided first. This is known as “bifurcation”. Moreover in Germany an injunction may be granted after the question of infringement has been decided but before the issue of validity has been determined.
14. Because of the haste with which this proposal is being pushed through, the issue of bifurcation has been fudged by providing that the proposed Unified Patents Court has a discretion to bifurcate in any particular case, but with no guidance as to how that discretion should be exercised.
15. In cases where the court exercises its discretion in favour of bifurcation, this again will be a potential disaster for industry. An injunction may be granted after the question of infringement has been decided which applies to many countries in Europe. Years later, the Court may decide that the patent is invalid and that the injunction ought never to have been granted at all. This does not promote innovation. On the contrary, it restricts competition without any justification.

Effect on SMEs

16. The current proposal is to have a Central Division, the location of which is yet to be determined, as well as Local Divisions in different Member States. A Regional Division may also be set up for two or more States upon their request. Each panel of each Division will have three judges.
17. The relationship between Local and Regional Divisions and the Central Division is far from clear. It may be that cases where validity is challenged will have to be sent to the Central Division, which is likely to be almost all cases.
18. This complex structure is likely to be far more costly and burdensome for SMEs than the existing system in the UK. A UK SME engaged in cross-border trade may also be required to defend itself against a pan-European injunction for patent infringement in the language of the Court chosen by the patentee.
19. Furthermore, how the Court will be funded is highly speculative, and is likely to result in significant additional costs being passed on to the parties. The CCBE report concludes at paragraph 5 that:-

“The costs uncertainties are significant. ...Figures that have been presented are on such levels that SMEs (and others) will likely end up with higher costs than in single national proceedings...The financial risk for SMEs to litigate in

the proposed Court is therefore significant and probably in many cases not acceptable.”

20. The Patents County Court (“PCC”) has procedures and a costs regime specifically designed for SMEs and is currently working well. After a transitional period, the current proposal gives exclusive jurisdiction to the Unified Patents Court, even in respect of existing European Patents, and so will exclude the PCC.

The absence of suitable judges

21. Art. 10(1) of the draft agreement requires that the judges of the Unified Patents Court shall “ensure the highest standards of competence and proven experience in the field of patent litigation.” Pursuant to Art. 6, each panel must have a multinational composition. The Commission estimates that by 2022, when the transitional period ends, 101 full time and 45 part time judges will be required.
22. Patent expertise varies greatly between member states. In some countries, such as the UK, Germany and the Netherlands, there are many patent cases. In others, such as the Eastern European countries, there are very few.
23. Therefore the requirement for multinational panels of judges possessing the highest standards of competence in patent litigation is a pipe-dream. The quality of justice administered by any court is dependent on the expertise of its judges. It will be impossible to train such a large number of judges, who do not have the relevant experience, to an acceptable standard.

Uncertainty as to the procedural rules

24. It is foreseeable that the agreement will be forced through before procedural rules have been agreed. A current (un-agreed) draft of the rules is immensely complex, containing over 200 provisions. Yet none of the existing documents even address fundamental questions, such as third party liability for patent infringement (accessory liability), legal professional privilege etc. Principles will have to be developed from scratch through case law of the new Court, a process which will be unpredictable and expensive.

Uncertainty as to location of the Central Division

25. There is disagreement as to where the Central Division should be located. Germany, France and the UK are all bidding for it. If the Central Division is located outside the UK, there will be far less requirement for the high level of patent expertise that currently exists in this country. The location of the Central Division is crucial, as it will inevitably have significant influence on the practice and procedures of the Court.

Conclusion

26. The purpose of this evidence is to highlight fundamental issues with the existing proposal. However, it appears that the train has left the station and is not stopping. If the UK opts out, then it may be marginalised, as once the Court has

been established, industry will require that it works. Intellectual Property is crucial to the UK.

27. A Unified Patents Court, if properly thought out, would be of great benefit to industry. But it should not have 'Divisions', only a single Court with a central registry which sits wherever is best for the case, using the language(s) appropriate or convenient for the parties, and with experienced judges.
28. If this is not possible, then we urge the Government to continue to press for the Central Division to be located in the UK, and to work with others to avoid the most serious consequences discussed above.

20 January 2012

Written evidence from the Confederation of British Industry (CBI)

Proposals for Unitary Patent and Unified Patents Court

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.

January 2012

Written evidence from the Chartered Institute of Patent Attorneys

The European Unitary Patent and the Unified Patents Court

Introduction

Summary

1. A 'Unitary Patent' system for the European Union (EU) is proposed. This is to be introduced using the 'Enhanced Cooperation' system by two European Regulations as well as a separate Court Agreement between the EU countries taking part (all except Italy and Spain). This paper sets out

- I. The history and process (§§ 4-13)
 - II. Evidence basis for this legislation and alleged cost savings (§§ 14-24)
 - III. Constitutional points and Arts 6-8 of the Patent Regulation (§§ 25-31)
 - IV. 'Bifurcation' (§§ 32-34)
 - V. Exclusivity and Transitional Provisions (§§ 35-44)
 - VI. Supplementary Protection Certificates (§§ 45-48)
 - VII. Other matters (§§ 49-54)
 - VIII. Conclusions (§§ 55-59)
2. The economic evidence for adopting the system as currently proposed is at best unreliable. We expect the proposed system to be less convenient, less flexible and more expensive, particularly for smaller companies. The law will become uncertain because certain aspects may be referred to the European Court of Justice (CJEU) for interpretation. Important questions as to how the system would work remain to be answered. If there are problems, the proposed system will be difficult and may be impossible to amend.

The Institute

3. This evidence is given on behalf of the Chartered Institute of Patent Attorneys (CIPA). CIPA was founded in 1882 and was incorporated by Royal Charter in 1891. It represents virtually all the 1,900 or so registered patent attorneys in the UK, whether they practise in industry or in private practice. Total membership is over 3,200 and includes trainee patent attorneys and other professionals with an interest in intellectual property (patents, trade marks, designs and copyright). It became, by the Legal Services Act 2007, the official regulator of the patent attorney profession in UK, its regulatory functions being carried out completely independently of the membership.

I. The history and process

4. Since October 1973, 38 states, including all Member States of the European Union ("EU"), have signed the European Patent Convention ("the EPC"). Importantly, the European Union was not a party to the EPC. The EPC provides for the current central procedure for granting European patents by the European Patents Office ("the EPO"). Although the granting procedure is centralised, the result is a bundle of national patents, each of which is subject to the law of the Member States in which the patentee claims protection. That is to say, a patentee might elect, when filing its patent application, for protection in the Netherlands, the UK and Germany. When the patent is granted, the patentee then has a bundle of national rights – a Dutch patent, a British patent and a German patent – each of which is subject to the national laws of the Member States for which it is granted,

5. A proposed unified patent system has been in discussion for over 40 years – a system which would increase the cost-effectiveness, certainty and efficiency of enforcing patents in Europe. In 2000, the European Council officially reopened discussions on a proposed Community patent. That summer the Commission put forward a proposal for a Council Regulation on the Community patent which provided for the accession of the EU to the EPC and the creation of a unitary patent which would be granted by the EPO. In 2007 the Commission presented a document entitled “Enhancing the patent system in Europe” to the European Parliament. This proposed to create a unified system to enforce current European patents and the future Community patent. The Council also drafted an international agreement between the Member States, the EU and other states party to the EPC which would create a unified court that could hear actions in relation to European and the proposed Community patents. In 2009, this led to further proposals by the European Commission for what was known as the European and Community Patent Court (ECPC), which included a separate proposed Regulation for a Community patent.
6. Following concerns by some Member States, including Ireland, Greece, Spain, Luxembourg and Italy, the European Council requested the opinion of the Court of Justice of the European Union “CJEU” under Article 218(11) TFEU over concerns that the draft agreement was incompatible with the EU and EC Treaties. On 8 March 2011, the CJEU found that the draft agreement was incompatible because it would deprive national courts of the power or obligation to refer a question of EU law to the court for a preliminary ruling under Article 267 TFEU: and if a decision of the unified patent court were to be in breach of EU law, it could not be subject to infringement proceedings by the commission nor could it give rise to financial liability on behalf of EU Member States.
7. It had become clear prior to the CJEU’s decision that a collective agreement between the EU and Member States in relation to the unitary patent and unified court would not be politically possible. Following the CJEU’s decision, on 10 March 2011 the Council authorized 'enhanced cooperation' for unitary patent protection. 'Enhanced cooperation' allows groups of Member States to integrate policies, even where other Member States do not agree. Italy and Spain brought actions against the Council arguing that the Council had misused its powers in instituting 'enhanced cooperation'. These cases are pending.
8. Following the CJEU’s decision, the momentum to establish a unified patent court and unitary patent system increased rapidly. From the summer of 2011 to December 2011, numerous draft texts of the proposed Regulation establishing unitary patent protection and the Draft Agreement on the unified patent court were circulated. Despite being informed of numerous vital concerns³ with the various versions of the Regulation and Draft Agreement by judges, patent professionals and industry throughout this period, including a unanimous resolution by the

3 These concerns are listed in this paper, as well in the submissions of EPLAW and Mr. Henry Carr QC.

Intellectual Property Judges Association, it came as a surprise to the profession when, on 2 December 2011 the European Parliament's Legal Affairs Committee and the Polish Presidency declared that there was a "done deal on the EU patent". Later that day it was announced by the Council that the following week they would agree on the seat of the unified patent court, the Proposed Regulations and Draft Agreement. On 5 and 6 December 2011, it was clear through various Council press releases and conferences, that there was substantial political pressure to agree on all elements of the package and initial the agreement on 22 December 2011.⁴

9. Disagreement on the location of the Central Division of the proposed Unified Patent Court by Member States slowed this process down. However, on 20 December 2011 the Legal Affairs Committee of the European Parliament approved all elements of the package. None of the issues raised by the patent profession had been addressed in the latest version of the Regulation and the problems, as set out below and in the written submissions of EPLAW and the IP Bar Association, remain. The story on the Draft Agreement is less clear – the latest version has yet to be seen by the public.⁵
10. Although it was hoped that under the Danish Presidency the rush to agreement on the proposals would be driven, not by political urgency, but by the objective of achieving an efficient, workable and cost-effective patent system, these fears nevertheless remain. Last week, the President of the European Commission, President Barroso, told Parliament:

*"I call on the three Member States, France, Germany and the United Kingdom, who are holding this up over a site issue of some offices, to swiftly find a compromise. Frankly, it is not acceptable! It is not acceptable that such a crucial initiative is blocked over such a trivial disagreement. Europe needs to innovate to grow. And innovation is severely hampered by the current complex and expensive rules that we have been trying to overcome for decades. It is time now to make history and to score a victory for ambition, for common sense and above all for Europe's innovators."*⁶

11. However, the comment from President Barroso again confirms the patent profession's and industry's concerns that these proposals are being rushed through primarily to score a political victory, the objective of creating a cost-effective and user-friendly unified European patent system being put second.
12. We believe the process would have benefitted from more input from professionals such as CIPA. During the run up to the CJEU's Opinion, we were informed that it was too early for us to provide detailed comments on the various draft documents. After Enhanced Co-operation was adopted, we were told that it was now too late.
13. Nevertheless, a group of professionals met in the UK and produced a detailed paper on key issues. Although this concentrated on the Court Agreement, comments were made on other issues too. Although some changes have been made to the

4 This never occurred.

5 The lack of a current Draft Agreement highlights the lack of transparency which has beset the profession throughout the legislative process and negotiations. This has made it very difficult for the profession and industry to comment usefully on the proposals.

6 Press Release dated 18 January 2012,
<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/13&format=HTML&aged=0&language=EN&guiLanguage=en>

Court Agreement, we have not seen a new text. Comments on the Draft Regulation seem to have had no impact at all.

II. Evidence basis for this legislation and alleged cost savings

Costs, Benefits and Risks

14. Part of the unseemly haste to implement the new European Patent reforms seems to be a belief that a unified system will help the Eurozone out of its current economic difficulties. That belief is difficult to credit. Changes to the patent system may indeed help: but they may significantly hinder the economy if the changes are poorly formulated. How the new system will work remains unclear and so does its economic impact. For example, the official fees for registering and maintaining a patent is still unknown.
15. If done right, the Unitary Patent could be a real boon to the economy. However, as CIPA has previously made clear, we do not consider the current proposals to be the correct basis for establishing a unitary system. We should not change the present system for something worse.
16. Unless amended, the current proposals would be worse than the current system in that it would be:
 - less flexible
 - more uncertain
 - more expensive, both for obtaining protection and enforcing it.
17. Further, the potential economic benefits of the new system remain unclear.
18. We feel the impact assessments done by the Commission are of poor quality and based on information which is no longer current⁷ ⁸. Before the legislation is released from scrutiny the committee might require that a proper impact assessment be done of the effects of the new regime. This should consider the comparative:
 - (a) costs
 - (b) speed
 - (c) quality of decision-making, including the impact of the inclusion of Articles 6 to 8 (see paragraphs 25-31 below).

If legislation was contemplated in this country such an assessment would be done as a matter of course.

Costs

7 We reference two papers from the Commission on the costs of the Unitary Patent. However, without knowledge of the fees, we may not know the real cost savings, if any.
http://ec.europa.eu/internal_market/indprop/docs/patent/sec2011-482-final_en.pdf and
http://ec.europa.eu/internal_market/indprop/docs/patent/studies/compact-cost%20-benefit-study-final_en.pdf

8 This paper sets out a view of when the court would be economic -
http://ec.europa.eu/internal_market/indprop/docs/patent/studies/litigation_system_en.pdf. This report assumed that the EU would subsidise the Court. It contends that the Court is useful only if it reduces duplicated litigation. It estimates that 60-70% of German litigation is duplicated, but this assumption is not supported by evidence.

19. One can hardly doubt that, for those who protect their inventions in all countries of the EU, a unitary patent will cost less to register, less to maintain and less to transfer, than the twenty-five individual national patents it replaces. Such people will certainly save considerably. To date, they have been few and far between⁹; (though there will certainly be more if the costs are sufficiently reduced).
20. We have seen no reliable estimates for renewal fees or of litigation. Nevertheless it is claimed that the new system will be considerably cheaper, to the particular advantage of smaller companies (SMEs)¹⁰. However, this claim is based on doubtful assumptions¹¹. Comparisons are made between the cost of obtaining protection by twenty-five separate national patents via the EPO route with the cost of a unitary patent. This shows the unitary patent to considerable advantage – it could be much cheaper. But whether an SME necessarily needs protection in twenty-five EU countries is not considered. No inventions are ever protected in all countries where patents can be obtained. The cost of rights obtained is roughly proportional to the number of countries in which patents are sought. The additional value of extra rights falls rapidly. An SME with a significant invention will rarely be well advised to file in all countries of the European Union. It is often a better use of limited funds to file only in a few of the larger countries of the EU, those in which competition is likely to be most important. Under current law, for patent purposes, the EU is not a single market: goods produced legally in a patent-free EU country cannot be sold unlicensed into another EU country where they are patented. Such limited filings may be as cheap as, or cheaper than, obtaining a unitary patent.
21. Another disadvantage of the unitary patent may be maintenance fees. Again, these are likely to be significantly cheaper under the unitary patent system than for separate protection in each of the twenty-five countries. They are unlikely to be cheaper than total renewal fees year on year in a smaller selection of countries. And the unitary patent will be less flexible. If the patentee needs to economise, with a selection of countries he can abandon the less vital rights, and keep the others: with the unitary patent, the only choice is to pay in full or lose all rights.

9 “...only around 1,000 patents out of approx. 50 000 annually validated patents (2%) are validated in all 27 Member States. Around 4,000 patents (8%) are validated in 13 Member States and 20,000 patents per year are validated in the largest 5 EU markets (40%). Approximately half of these patents are only validated in 3 Member States – an estimated 25,000 patents per year (50%).” EU Commission paper SEC(2011) 482 Final.

10 “By adopting the European patent, we will make it easier, quicker and cheaper to protect intellectual property; we aim to award the first EU unitary patent in 2013, saving up to 80% on the current cost. This will be as attractive to American companies as European ones – particularly Small and Medium-sized Enterprises.” Máire Geoghegan-Quinn, European Commissioner for Research, Innovation and Science, “Europe: Your Destination for Research and Innovation”; Destination Europe Boston, 20 January 2012.

11 Press releases (from the European Parliament and others), claiming that an EU patent will cost €650, as compared with a US patent costing around €1850, are based on a misunderstanding. They compare different items. The cost for the US patent is (apparently) an estimate of the total official fees from filing to grant. In comparison, the EU figure quoted is only the *extra cost of translations* (eventually to be) required to convert a *granted* EPO application into a unitary patent. A fair comparison would also have to include all the official costs of EPO prosecution, including at minimum a filing fee (€115), designation fee (€555) search fee (€165), fee for examination (€555) and fee for grant (€875), as well as (typically) the first two annual maintenance fees of €445 and €555 respectively. In any event, it makes no sense to ignore the major costs incurred in a (prudent) patent filing - professional fees.

22. Thus simply to show that complete coverage over the EU will be cheaper under the new system is inconclusive. It could assist large companies who routinely file in all EU countries (for example, drugs firms). It is much less clear that it will save money for SMEs. In any case, any savings on registrations or renewals could go by the board, should the cost of enforcing the patent be prohibitive, or the patents be rendered valueless by perverse decisions.

Litigation

23. The proposed Court system is intended to be practicable and affordable. But there are no reliable estimates of costs here either. Originally the European Union planned to contribute to the costs, but following the CJEU Opinion, the Commission is no longer a party to the Court Agreement and will not be contributing to the costs of setting up this system or training the judges. It therefore appears that much of the costs of setting up and running the courts, which will fall on national governments, will be passed on to litigants. Litigation before the new Courts will be heard by a panel of three or four judges, which (however desirable in a new multinational system) must be more expensive than a single judge. The benefit will be that one action and one decision will replace litigation in several countries. However, such multiple litigation is not at all common (no firm figures are available, although some estimates are no more than 5-10% of patent litigation is duplicated in other Member States), and normally undertaken only by large companies. Such companies have the necessary financial resources and (perhaps even more important) the available manpower. Patent litigation can take up much staff time, which smaller companies cannot spare. So any benefits here are at best unclear.

Economic benefits

24. The Hargreaves Report suggested that a Unitary Patent system would be worth £2.1 billion a year to the UK economy by 2020 ((Hargreaves Report, Supporting Document EE: Table, page 2 line 2; Discussion, pp. 7-8)). There is a strong argument to proceed, if that forecast is reliable. However, we doubt this. The benefits are said to arise by making life easier for small companies, a major source of economic growth. However, we do not see that the proposed changes will on balance make life easier for smaller companies. We think they may make things worse. We note that the Hargreaves Report was completed in the early months of 2011, before details of the current proposals were available. We do not know what assumptions were made about how the Unitary Patent would work, or how the changes would affect small companies. It would be understandable if in these circumstances projections were too optimistic.

III. Constitutional points and Arts 6-8 of the Patent Regulation

25. CIPA has had the benefit of seeing the written submissions of EPLAW and Mr. Henry Carr QC to the Committee. CIPA unreservedly agrees with their comments in relation the problems associated with Articles 6 to 8 of the Proposed Regulation.
26. The inclusion of Articles 6 to 8 in the proposed Regulation means that the interpretation of the meaning of what constitutes infringement of a unitary patent will be subject to the preliminary ruling jurisdiction of the CJEU. This will result

in three considerable problems – increased delay, increased cost and increased uncertainty.

27. Preliminary ruling references to the CJEU have the effect of suspending the litigation between the parties. Once the CJEU has ruled, then the national litigation must restart, in order for the opinion of the CJEU on the points of law to be applied. Those preliminary ruling references are, as Mr. Carr says, “notoriously slow” and can delay proceedings for years leaving both parties in an ambiguous “no-man’s zone” in respect of their legal positions and in turn greatly impacts their, and third party, participation in the marketplace. This delay can have a significant impact on patent rights which, unlike trade mark rights that can last indefinitely, are of limited duration – 20 years. With delay can also come increased expense, as further legal fees are incurred and interest on damages or undertakings accrue.
28. In other areas of intellectual property, namely in trade mark law, opinions from the CJEU have created a body of law which is often unclear, unformulated and devoid of any basis in the provisions of Community legislation and the recitals which aid its interpretation. The very nature of a CJEU reference means that the Court is giving very broad guidance on the interpretation of EU law. It thus does not address, with the required specificity usually demanded by cases, the complicated issues of law and fact at issue. The problems which broad guidance on the interpretation of law can create is likely to be compounded by the fact that the judges of the CJEU, although skilled, will not be equipped with the necessary experience in the field of patent litigation that the referring judges are required to possess under Article 10(1) of the Draft Agreement.
29. Further, when the CJEU issues an opinion it is for the referring national courts to apply that opinion to the facts of the case under their national law. This application can vary as between Member State’s national courts, and indeed even as between judges within the same jurisdiction. This has already created substantial uncertainty in other areas of intellectual property law, notably trade mark law and the laws of copyright. Further, the application of a CJEU opinion by courts may never occur in instances where the parties settle a dispute following the opinion – again leaving the status of law unclear.
30. Such legal uncertainty can lead to more litigation between parties attempting to clarify their respective legal position. It can also prevent parties from entering a market in which they would be free otherwise to compete but for the uncertainty of the legal position and the threat of litigation. Both outcomes increase costs and can damage innovation and the functioning of the market, especially for SMEs.
31. The consequences of this system – increased delay, increased uncertainty, and increased costs - threaten to be replicated in the patent field if Articles 6 to 8 are not deleted from the Proposed Regulation.

IV. 'Bifurcation'

32. This is the system whereby validity of patents is judged separately from infringement – in separate trials, in different courts. It is an important feature of German (and Austrian) procedure, and quite foreign to other countries. In its favour is urged that it simplifies matters – and so it does, for the patentee. But, according to British ideas, it is quite unfair to the party accused of infringement. If the patent is invalid, it cannot be infringed. The infringement trial (in Germany) is

faster than the validity trial. Infringement may be found (and the 'infringer' required to cease operations and pay damages) well before the patent is proved to be invalid in the validity trial. An even stronger objection is that the patentee can put a different case in the two trials – particularly about what the patent means. In the infringement trial he will seek to interpret the scope of protection as broadly as possible, so as to cover what the defendant does: in the validity trial he will argue for a narrow meaning, so not covering what has been done before (even if this is similar or even identical to what the defendant has done). Trying validity and infringement together is intrinsically fairer because the patentee must then argue only for one consistent meaning.

33. The availability of bifurcation in Germany will powerfully affect the way the new Court arrangements operate. Patentees will be advised to file their infringement suits in Germany wherever possible. This will be particularly inconvenient for small companies from other countries, which will have extra expense in dealing with overseas proceedings not in their own language. They may be able to get the suit transferred from the local German division of the European Patents Court to the Central Court, so that infringement and validity can be considered together – but arranging the transfer will itself cause added trouble and expense. A cheaper alternative may be to concede the case unargued. This is a discouraging outlook for small companies.
34. Larger companies are also worried. They fear that 'trolls' (companies who buy up patents from a variety of sources, not to develop new products, but in the hope of extracting licence fees from those who do) may be encouraged by 'bifurcation' to step up their activities in Europe. Just how troublesome this may be would depend on the rules of the new Courts (not yet available).

V. *Exclusivity and Transitional Provisions*

35. Patents can protect considerable income streams for 20 years into the future. However, patent attorneys have to advise clients at the outset what to file and where to file. Our members are trying to advise their clients now on what they should be doing in order to protect themselves for the next 20 years: should they file through national patent offices or the EPO?
36. To answer that, patent attorneys need to have an idea of both the application process and what happens post-grant – i.e. how enforcement is carried out. When the EPO started, many applicants (if they could afford to) hedged their bets and filed cases twice – once via the National route and once via the EPO. There was duplication, but it reduced risk – it meant that users could compare the systems and decide whether the EPO was working properly before they had to commit. As users got used to the EPO, this practice reduced. But with the new European Patent Court system as currently proposed, we may end up resurrecting this wasteful practice.
37. If it turns out that, for EPO-granted national patents, the new European Patents Court does not do as effective a job as the national courts it is seeking to replace, then users will want to fall back on the original system – national patents granted by the national patent offices and enforceable through national courts. This decision has to be made early in the life of each invention. It cannot be unmade later. Patent law prevents a later filing for the same invention.

38. So users seek the right to opt out of the European Patents Court system until it has developed a track record. If the track record is weak, then they want to be able to opt out for good.
39. However, this is hindered by two provisions – the exclusivity of the European Patents Court (for all infringement and validity litigation both on unitary patents and on national patents granted by the EPO) and the short transitional provisions. No doubt both of these provisions would help to ensure that the new European Patents Court has customers. But it should gain these on merit, by competing effectively with the national systems, and not by coercion. The EPO has been a remarkable success, without coercion. As an optional new system, competing with national patents, it has won the trust of users (who retain the opportunity to file for patents nationally). It is now a cornerstone of the European patent regime. But if the new Court system doesn't work, it could be severely damaged, because in order to avoid that system, inventors will have to bypass the EPO.
40. The uncertainties are numerous. No one knows yet how the European Patents Court will function or what it will cost. Whilst it is expected to be cheaper than litigating the same patent in three or four different EU member states, it is unlikely to be cheaper than litigation in one member state only. Will cases take longer than they do at present? We don't yet know the Court rules, which will be a key determinant of quality. Such uncertainty as to the quality of the court and system may well mean that many companies will choose to pursue litigation through the national route for many patents in order to avoid the new court,.
41. Of critical importance is whether the enforcement regime will be good for SME's or whether they will find themselves priced out of patent litigation. Can a three-judge, local, regional or central division really be as efficient, flexible and responsive as the Patents County Court? We doubt that this could ever be the case. So an assurance that the PCC will retain its jurisdiction for EPO-granted patent disputes during the transitional period is not enough.
42. These problems would be easily solved by making the European Patent Court's jurisdiction non-exclusive.
43. If the intent ultimately to grant the European Patents Court exclusive jurisdiction over the patents granted by the EPO remains, then the transitional provisions and ability to opt out (or back in) during the transitional period should last much longer. We need to know the track record of the European Patents Court over at least a decade before any such exclusivity starts , and then the compulsion should only relate to applications filed *after* the end of that transitional period and not to all then pending applications and granted patents.
44. It may be objected that if serious difficulties arise, the system could be amended. We strongly doubt whether this would be easy or even possible. To amend the Court agreement would require unanimity of the parties.

VI. *Supplementary Protection Certificates*

45. Supplementary Protection Certificates ('SPCs') are a form of patent term extension which can be obtained for certain pharmaceutical and agrochemical products. The extension compensates for the time taken to obtain by regulatory approval. These rights mean a great deal to drug developers.

46. Currently the EU SPC regime relies upon patent owners or their licensees seeking the patent term extension once they have been awarded a national or EU regulatory approval. SPCs are granted by national patent offices on national patents, whether granted by them or the EPO.
47. This regime will not extend to the new EU patent. A new regime is required. This is not simply a case of needing to adapt the current regulation to cover the EU patent as well as the national patents, an authority which will grant and administer the SPCs must also be established. Will this go to one national patent office? Delegating this to the EPO may not be acceptable as the EPO, which is not an organ of the EU, has no experience whatever of dealing with SPCs. Further, the decisions of national patent offices are then appealable to the national courts, with referrals available to the CJEU. What will be the appeal route for a refusal to grant an EU SPC? Should that go to the European Patents Court? Or direct to the CFI?
48. A further complication is that an SPC is based both on a patent and on a regulatory approval certificate. Many (not all) of such certificates are issued by national regulatory authorities. Will such national certificates serve to extend the unitary patent throughout the EU? – or only in the country issuing the certificate (in which case the patent would no longer be unitary)?

VII. Other matters

Interaction with the EPC and the EPO

49. In the leaked Opinion of the Advocates-General in August 2009, statements were made about the need for the powers delegated by the EU to the EPO to handle EU Patents to be overseen by an EU court. The CJEU did not address this point in their final opinion. The EPO is not an EU organisation and has 38 Member States, 11 of which do not currently belong to the EU. So it is by no means clear whether or how this system can operate in practice. In effect, the EU may be asking the EPO to run one system where the patents are to be unitary patents and a second system for all its other member states. We also believe there are other inconsistencies between the Regulation and the EPC, which need further review.
50. The new European Patents Court will be overseen by judges qualified in patent law. The experience of both the United Kingdom and numerous other EU Member States is that the appointment of specialist judges in this field generally results in quicker trials. The judges are already familiar with patents (their structure and language), the appropriate law and civil procedures. This results in high-quality decisions.
51. However, to get the most out of a specialist system, it is also important for the cases to be properly presented. Patent attorneys represent clients in patent matters in this country. The English judges have recognised that patent attorneys perform better than solicitors who are not familiar with patent law. The EPLAW proposal does not require lawyers to show any knowledge of patent law – and yet this highly specialised area is the key issue in any dispute before the European Patents Court.
52. At the moment, the draft court agreement grants patent attorneys the right to represent parties in disputes in the European Patents Court, albeit that they may need a further qualification – perhaps similar to that already obtained by patent attorneys in this country who wish to act in the High Court.
53. Even if other matters can arise, disputes before the European Patents Court will

centre on patent infringement and invalidity, core areas for a patent attorney's practice. Litigation is often conducted by teams, and if other topics arise the team can be augmented – but it should still be run by someone who has a detailed understanding of the key patent issues.

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German Property Law to apply to patents from overseas

58. The default position for all non-EU businesses is that German property law will apply. The drafting in the regulation, and the effects this may have, are still not clear. The original provisions in the Community Patent Convention, where a non-EU party could select the relevant property law by selecting an attorney in the appropriate jurisdiction, would be clearer and fairer.

VIII. Conclusions

59. The current drafts of the Proposed Regulation and Draft Agreement, as currently drafted, will create a system which is the antithesis of the system that was intended to be created. The economic evidence for adopting the new system is doubtful at best. We expect it to be less convenient, less flexible and more expensive, particularly for smaller companies. The law will become uncertain because it is to be decided by the European Court of Justice (CJEU). Important questions as to how the system would work remain to be answered. The current proposals create a system that could be a playground for patent trolls, while legitimate investment in patent protection and enforcement in the EU could decline.
60. Europe's judges, patent profession and industry have repeatedly informed national governments and European legislatures of the systemic problems with the current proposals and solutions to these problems. The current proposals require careful consideration by experts, instead of a rush to politically acceptable but economically damaging compromises.
61. CIPA again urges that the full package for this legislation is properly thought

through, with all parts being prepared, so that the package can be looked at as a whole, before it is adopted.

Once that is done, we believe that an effective system would be achieved. In that context, it makes sense for international business that the Central Division of the European Patents Court be located in London.

62. For these reasons, we feel that this legislation is not yet fit for purpose and more work is required if we are to create a patent system which will enhance the creativity of European businesses.

23 January 2012

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

Unitary Patent Regulation and Unified Patent Court Agreement

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

Written evidence from Baroness Wilcox, Parliamentary Under-Secretary of State at the Department for Business, Innovation and Skills

9224/11 & 9226/11 (32700 & 32701): REGULATIONS ESTABLISHING A UNITARY PATENT, AND THE APPLICABLE TRANSLATION REGIME, WITHIN THE FRAMEWORK OF ENHANCED COOPERATION

I am writing to update you on the progress of the patent Regulations following the adoption of a general approach at the Competitiveness Council of 27 June 2011, for which you kindly lifted the scrutiny reserve under paragraph 3(b) of the scrutiny reserve resolution as set out in your letter of 22 June.

The Regulation establishing a unitary patent, under the co-decision procedure, has been the subject of informal discussions between the Council Presidency, the Parliament and the Commission with a view to agreeing a deal at first reading. The Council's position was based on the general approach.

The lead committee in the European Parliament is the Legal Affairs Committee, who voted on the Commission's proposal on 19 December 2011. Although a consolidated text including the Committee's amendments has not yet been finalised, the Council secretariat has published the four-column document 17578/11 setting out the compromise text to which the Legal Affairs Committee's amendments correspond.

We expect the European Parliament to consider the Legal Affairs Committee's report and any other amendments tabled at its plenary session in February, following which the file will return to the Council, possibly for adoption as an 'A' point.

I enclose the four-column document for your information, and I have set out below the main substantive changes in relation to the general approach, without addressing minor drafting changes or reorganisation of the text.

- New Recital 11a makes reference to provisions on damages in the enforcement Directive (2004/48/EC), not governed by the unitary patent Regulation.
- Recital 16 and corresponding Article 15(2) refer to taking account of the needs of small and medium sized enterprises in setting fees.
- New Recital 21b urges participating Member States to ratify the Agreement on the unified patent court in accordance with national constitutional and parliamentary procedures and take steps for the court to be operational as soon as possible.
- Articles 6 – 10 are clarified to refer only to territories where the patent has unitary effect (see Article 22)
- Article 12(2) is expanded to clarify that the Select Committee of the Administrative Council of the European Patent Organisation will consist of representatives of the participating EU Member States, together with an observer from

the Commission, and will take decisions with due regard for the position of the Commission.

- Article 20 is changed so the Commission reports on the operation of the system after three years from the first unitary patent taking effect, and every five years thereafter (from six and six previously).
- Article 21 is amended to require participating Member States to notify the Commission of implementing measures, adopted by the date in Article 22, or the date from which the unified patent court has exclusive jurisdiction in that Member State.
- Article 22(2) sets out the application date of the Regulation as being 1 January 2014 or the date of entry into force of the Agreement on the unified patent court, whichever is later. European patents shall only have unitary effect for the participating Member States in which the unified patent court has exclusive jurisdiction at the date of registration (of the unitary effect). The consequence of this should be that the European patent has effect as a national patent in other States designated in the application, providing any national requirements are met.
- Article 22(4a) distinguishes between the date of 1 January 2014 for ensuring administrative arrangements are in place at the European Patent Office as required by Article 12, and the date for implementation of measures ensuring that unitary effect can be inscribed in the European Patent Register which must be by the time the unified patent court has exclusive jurisdiction for the state concerned.

These amendments bring into place the improvement noted in your letter of 22 June, that the Regulation does not come into effect unless there is agreement on a unified patent court that is compatible with EU law.

Also included in the document 17578/11 are two small changes to the Regulation on applicable translation arrangements (page 67). This Regulation is subject to unanimity in the Council and consultation of the European Parliament. We expect it to be considered at the same plenary session in February before coming back to the Council for possible adoption.

I appreciate that the waiver granted in June means these Regulations have not yet cleared Parliamentary scrutiny, and I would like to ensure that we provide the Committee with all the necessary information you need in this respect.

As these Regulations are within the framework of enhanced cooperation, I note that the draft Council Decision authorising enhanced cooperation on the unitary patent (11815/10) is retained under scrutiny, and would be pleased to supply any further information that is needed for it to be cleared. However the previous draft regulation on language arrangements (11805/10), which was being discussed before enhanced cooperation was authorised in March 2010, is effectively superseded by 9226/11.

19 January 2012

Further written evidence from Baroness Wilcox, Parliamentary Under-Secretary of State at the Department for Business, Innovation and Skills

11533/11 (33058) DRAFT AGREEMENT ON A UNIFIED PATENT COURT AND DRAFT STATUTE

Thank you for the Committee's consideration of the enforcement of patent rights at your meeting of 20 December. I am writing in response to the points raised and to provide further information before the Committee's evidence sessions on 25 January and 1 February.

First I should confirm that after the Competitiveness Council of 5 December, and following a number of bilateral contacts between the Polish delegation and states participating in negotiations on the unified patent court, the Poles determined that there was no consensus on the compromise package they had proposed on 5 December. Consequently they decided to cancel the initialling ceremony they had scheduled for 22 December. Discussions on the unified patent court are continuing under the Danes, though there is no specific format or timetable. We understand that on the draft Agreement they hope to make early progress.

The Rules of Procedure, which set out how the Agreement will operate in practice, were previously taken forward by an expert group of stakeholders advising the Commission. Members of that group tell us they have been invited to a meeting on 3 February to continue their work.

Regarding the concerns of the Committee about having an up to date text of the Agreement, I fully understand your position. Unlike the situation which might apply in the case of legislative procedures in the Council, we do not have a single up to date text which sets out agreed positions and reservations by delegations. We might have expected a clean text if the Agreement had been ready for initialling on 22 December.

However in the light of the Committee's request my officials have taken the opportunity to consolidate the main working documents which have been published since document 11533/11, and this unofficial text is enclosed. An analysis of the main changes is included in Annex 1, as well as an indication of the areas covered by the Polish compromise proposal, on which we expect discussion to continue. The compromise proposal has not been made publicly available, other than to the extent summarised in the Council press release after the 5 December Competitiveness Council, and is still under negotiation between the states concerned.

As regards the specific issue of Articles 6 – 8 of the patent regulation, and the body of expert opinion to which the Committee refers, perhaps it would be helpful to distinguish between the provisions of the Agreement establishing the unified patent court, and those of the patent regulation.

As members of the Committee will appreciate, the Court of Justice of the EU always has the power to interpret questions of EU law, for example when a court of the EU Member States refers such questions for a preliminary ruling. The provisions of the unitary patent regulation, including Articles 6-8, would be matters of EU law. Should an issue of interpretation arise in relation to such provisions, the courts of the Member States would

need to comply with the provisions of the EU Treaties conferring jurisdiction on the Court of Justice of the EU to give preliminary rulings on any such referred questions.

The Agreement is intended to establish a unified patent court which is a court common to participating EU Member States, and will then be subject to the same relationship with the Court of Justice as current national courts. So the unified patent court will have the same powers, as national courts do, to refer questions of interpretation of EU law for a preliminary ruling.

In EU legislation which establishes any intellectual property right, it is usual to set out what the right actually consists of. For the unitary patent there must be legal provisions to say what acts the patent holder can prohibit, because these are what define infringement of the patent, which is the essence of the patent. In most national systems the patent holder can pursue action against someone who makes, sells, or imports products embodying the patented invention without the patent holder's permission, so these would be infringing acts in relation to national patents. Articles 6 – 8 of the unitary patent regulation correspond at EU level to the provisions on infringement which are generally found in national laws. Equivalent provisions are found in the court Agreement as far as European non-unitary (bundle) patents are concerned. However stakeholders would like infringement provisions for the unitary patent in the Agreement, rather than having them set out in the patent regulation.

A party's defence to allegations of infringement may be that the patent should be considered invalid, on the basis of specific reasons. However for patents granted by the European Patent Office, including the future unitary patent, the reasons for which a patent may be found invalid are already set out in the European Patent Convention, to which all EU Member States are party. There is therefore no need to include provisions on validity in the patent regulation.

It is undoubtedly the case that if a court dealing with a dispute decides it needs to ask a question of the Court of Justice about the interpretation of EU law, there will be a delay in giving a final ruling on the dispute. But it is for the original court to decide if any question needs to be referred, for example if clarity is needed on the interpretation of specific provisions, and equally the original court must decide how to apply the preliminary ruling of the Court of Justice once that is received. We already see this happen in the case of some aspects of EU law that relate to patents.

Nonetheless I do appreciate stakeholders' concerns about the inclusion of Articles 6 – 8 in the regulation, rather than having infringement provisions for unitary patents in the court Agreement. We have raised this issue with successive Presidencies, the Commission, and others involved in the negotiations. We understand that among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation, even if there is no written body of expert opinion to compare with the papers produced by Professor Sir Robin Jacob and others. Moreover, while we have taken opportunities to raise this issue with our counterparts, the general approach on the patent regulation agreed at the Competitiveness Council of 27 June 2011 did include these articles within the text of the regulation. I will cover the progress of the patent regulation more fully in a separate letter.

I hope the further information provided here will be of assistance to the Committee, and I look forward to having the opportunity to answer the Committee's questions on 1 February.

19 January 2012

**Further written evidence from Baroness Wilcox, Minister for Intellectual Property,
Department for Business Innovation and Skills**

Memorandum for the European Scrutiny Committee: Draft agreement on a unified patent court (33058)

Introduction

1. The European Scrutiny Committee heard evidence from the Chartered Institute of Patent Attorneys, the IP Bar Association, and the European Patent Lawyers Association on 25 January, and has received written evidence from these bodies as well as from the IP Federation, the AIPPI, the IP Lawyers Association, and the CBI. These organisations, along with other industry associations, are all represented on the Intellectual Property Office's consultation group which meets regularly to discuss the patent and court negotiations. The Government takes account of the views received from these users of the system which contribute to and inform our negotiating position. We also take into account the wider public interest and have to bear in mind the positions of our negotiating partners as well as the overall political context.

2. This memorandum is intended to respond to the concerns highlighted by stakeholders in their evidence to the Committee. Those concerns, as highlighted in the Committee's letter of 25 January 2012, are as follows:

Bifurcation

3. As the Committee heard from witnesses on 25 January, there are strong traditions elsewhere which favour bifurcation. The draft Agreement does provide options for the local divisions and central division to choose how to treat cases when infringement and validity are both in dispute. In some countries, such as Germany and Austria, under the current system local courts deal primarily with questions of infringement. If the validity of a patent is called into question then another court must rule on that issue, for example the Federal patent court in Germany. In the United Kingdom the Patents Court and the Patents County Court will usually consider both aspects of a case at the same time if invalidity is raised as a defence to infringement. But the different divisions of the Unified Patent Court are not local national courts and will have panels of judges from different nationalities. So there is an opportunity here for practice to converge across the different divisions of the patent court as judges from different national backgrounds work together.

Costs of litigation in the UPC

4. We cannot give a definitive view of the costs and benefits, at least in monetary terms, as fees for the patent and the court are still to be decided.

5. The court is intended to be self financing from court fees in the long run. However, the participating Member States will contribute to the set up costs during a

transition period when the court will not be self-financing. Member States will also be required to make special contributions to the budget in the event of a financial shortfall.

6. All those involved in the negotiations are committed to reducing the cost. For example, many Member States that currently experience low levels of patent litigation are expected to pool resources into regional divisions or may opt to have no local or regional division at all. In the latter case, disputes would be heard instead by the central division. This would reduce the overall cost of the Court system

Effect of the UPC on SMEs

7. Under the new system, SMEs will have the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions.

8. There is a very strong commitment from all involved in negotiations that the system should be affordable for SMEs. It should certainly work out cheaper for one case with a decision applying in several states than it does to have the same case dealt with in several different national courts as at present.

Exclusivity and transitional provisions

9. The question of exclusive jurisdiction of the unified patent court was already raised much earlier in these negotiations, before the reference to the Court of Justice in Opinion 1/09. The counterarguments then were that the new system needs a good input of cases to be able to build up a consistent and uniform practice across all divisions, and that is surely still true.

10. However, in order to give the new system time to establish a good reputation for high quality judgements, a transition period during which patentees can opt-out their non-unitary European patents has been included in the draft Agreement. Users have argued that the transition period of five years is too short, that European patents granted during the transition period should be eligible for the opt-out and that the system should allow flexibility for patentees and applicants to opt back in.

11. All three of these suggested improvements have been included in the latest proposals. An amendment to article 58 of the Draft Agreement has been proposed that would see the transitional period increased to seven years (rather than five), during which proceedings concerning non-unitary European patents may be initiated before national courts, and holders of European non-unitary patents and patent applications may opt-out from the exclusive competence of the court (they may also opt back in). A review will be carried out five years after the entry into force of the Agreement, with the possibility of prolonging the transitional period by up to another seven years.

Effect of the UPC on the Patents County Court

12. The opt-out available during the transition period will allow SMEs who are patent holders or who are initiating cases to continue using the Patents County Court for a decision in respect of the United Kingdom. We also hope that the example of the Patents County Court will make a strong contribution to the Rules of Procedure which are being developed for the Unified Patent Court. There is already provision for a cap to be put on legal costs to be borne by a losing party, which is one of the areas where reforms were recently introduced in the Patents County Court.

Absence of judicial expertise in the UPC

13. Many users and practitioners of the patent system have raised concerns about the lack of experienced patent judges across the EU. The various panels of judges in each division will require judges from different countries but only a few Member States have a strong tradition in patent litigation and could provide the necessary expertise.

14. The number of judges we need will depend how many divisions there are. But given the transition period, when national courts are also available, we won't need all the patent court judges to start at once. We can start training as soon as the court is agreed. Besides our own expert judges, there are already 150 patent judges in the German federal patent court, and states where there is little patent experience are keen to develop that expertise. All the participating Member States are committed to beginning training judges as soon as the court Agreement is signed. This would ensure that enough suitably qualified and experienced judges would be able to start work as soon as the new system comes in to force. The provision of training for judges has been a key concern of smaller Member States throughout the negotiation.

Supplementary Protection Certificates (SPCs)

15. There is currently a lack of clarity around how the current system of SPCs will apply to the unitary patent and the pharmaceutical industry is quite rightly concerned. We need the Commission to bring forward legislation to extend the availability of SPCs to the new unitary patent, and the Commission has signalled its willingness to do so.

Location of the Central Division

16. Evidence received from stakeholders on the benefit to legal services business of hosting the central division of the Court has helped inform the Government's position in bidding for London. As the committee is aware Germany, France and the Netherlands have also made similar bids.

17. The location of the Central Division of the UPC is a major issue that remains to be resolved and the negotiations are still ongoing. The Danish Government, which took over responsibility for coordinating the negotiations on the Court Agreement on 1 January 2012, are seeking a way to resolve the issues that still have to be agreed by the end of their term in June. That includes the location of the central division but also other issues - for example around financing; entry in to force; and the Rules of Procedure. Securing the Central Division for London is still an important priority for the United Kingdom.

UPC Rules of Procedure

18. The Rules of Procedure, which set out how the Agreement will operate in practice, were previously taken forward by an expert group of stakeholders advising the Commission. We understand that members of that group have been invited to a meeting on 3 February to continue their work.

19. We have been clear during the recent negotiations about our wish to see and consider a draft set of rules before signing the court Agreement.

Articles 6-8

20. We entirely understand the issue on Articles 6-8 of the patent Regulation and have raised it directly with successive Presidencies, the Commission, and others involved

in the negotiations. Among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation, even if there is no published body of expert opinion to compare with the papers produced by Professor Sir Robin Jacob and others. Moreover, while we have taken opportunities to raise this issue with our counterparts, the general approach on the patent regulation agreed at the Competitiveness Council of 27 June 2011 did include these articles within the text of the regulation. I represented the United Kingdom at that meeting and mentioned the need to revisit these provisions at a later stage.

21. Although there is no published body of expert opinion there are probably two main arguments that would be put by those who do support inclusion of Articles 6 – 8 in the regulation. One argument might be that provisions on infringement set out the very core of an IP right, and therefore it is crucial that these provisions appear in the EU legislation establishing the unitary patent. In the United Kingdom it has always been the case that we see infringement and validity as two sides of the same coin, and so they should go together, but this is not the case in some other significant jurisdictions, such as Germany already mentioned, and as the Committee heard on 25 January.

22. Another argument might be that the effects would not be as damaging as people fear. Of course there must always be provision to refer questions to the Court of Justice when they concern the interpretation of EU law. In the case of the infringement provisions in the patent regulation, it has been suggested that the Court of Justice will only receive requests for a preliminary ruling if a judge feels that the wording of those provisions is unclear, and given that specialist judges will have experience of patent infringement cases, the number of references should not be significant. Equally the time taken for a reference to the Court of Justice is reported to be running at around 16 months, which would be considered speedy under some national traditions.

23. These are arguments we would need to overcome to get these provisions changed.

Conclusion

24. The unitary patent and unified patent court is a priority in the Government's growth agenda. Indeed the United Kingdom has been in the forefront in taking this forward. There is no doubt that a well-functioning unitary patent and court system will save businesses the cost and burden of maintaining and enforcing their patents separately in different countries. It will also help those who want to challenge invalid patents which hinder legitimate business.

25. We must give UK companies the same access to a single patent system for Europe that they would have in the United States or China, to support innovation, growth and competitiveness.

26. But these negotiations are not straightforward. Our European partners have a wide range of legal traditions, some very different to our own, and we have to balance the interests of patent holders, competitors and consumers. All these factors influence the ultimate design of the new system.

27. The negotiations are ongoing and the Government will continue to work hard to ensure that the interests of UK industry are protected before we sign any final agreement.

30 January 2012

Written evidence from the Intellectual Property Lawyers' Association

Submission to European Scrutiny Committee on proposed Unified Patent and Unified Patent Court

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 twelve 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 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

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

Draft agreement on a Unified Patent Court and Draft Statute

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 25th January and 1st 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

**Written evidence received from Prof. Dr Winfried Tilmann, Attorney-at-Law,
Hogan Lovells International LLP, Düsseldorf, Germany**

The battle about Art. 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 Art. 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. Art. 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 (Art. 102 CTM-Regulation; Art. 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.¹²
3. The proposed Art. 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 Art. 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 Art. 8 contains the usual patent-free areas and actions, Art. 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

¹² 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.

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 Art. 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 Art. 102 CTM-Regulation and the most important referral (DHL v, Chronopost¹³) had been decided only in 2011, after 11 years of existence of that Regulation.
5. Certainly more referrals were to be expected regarding Art. 6 and 7, since, differently from Art. 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 Germany¹⁴, 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 doctrine¹⁵, 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 Art. 6 and 7. And this practice has been following largely the same line. Therefore, many interpretation-questions regarding the details of Art. 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 2011¹⁶, 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 Art. 6 and 7, let me call it the "*Kraßer*-argument", was legitimate, i.e. 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 Art. 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 i.e. 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

¹³ C-235/09 of 12.4.2011, GRUR Int. 2011, 514 ff.

¹⁴ *Rudolf Kraßer*, Patentrecht, Ein Lehrbuch und Handbuch, 4. Aufl. Munich 2001

¹⁵ *Callies/Ruffert-Wegener*, 4th ed. 2011, AEUV Art. 267, note 32

¹⁶ GRUR Int. 2011, 309 ff.

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 Art. 8 and 9 defining the patent-free acts for the reasons of special protected interests (Art. 8) and for the free movement of goods (exhaustion-rule in Art. 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 Art. 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 Art. 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 Art. 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 Art. 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 Art. 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.
13. EPC-questions outside the jurisdiction of the ECJ are: revocation-rules (Art. 138 EPC), scope of protection rules (Art. 69 EPC and Protocol thereto), the block-grant-effect and the block-revocation-effect (Art. 142 EPC) and the block-transfer-effect (Art. 148 EPC) (the Art. 142 EPC-effect and the Art. 148 EPC-effect being triggered by Art. 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 Art. 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 November 21, 2011.

V. The Art. 118 TFEU-Argument

17. Only at a late stage of the discussion, the requirements of Art. 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 Art. 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 Art. 9) were transferred to the UPC Agreement.
18. Art. 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 Art. 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 Art. 69 EPC (plus Protocol thereto) applies already to European Patents. Art. 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 Art. 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 Art. 118 TFEU and for the "unitary effect" Art. 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 Art. 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 Art. 6-8, be not "nothing more than an empty shell", as Deputy *Rapkay* put it in the Legal Committee's meeting of November 21, 2011?
23. The said argument would run against the apparent meaning of Art. 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 Art. 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 Art. 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 (Art. 102) and the Design-Regulation (Art. 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*¹⁷ as well as the ECJ¹⁸ have given to the concept of EU-wide "protection" under Art. 102 CTM-Reg. in the case 235/09 (DHL v. Chronopost) will be the most likely interpretation of "uniform protection" under Art. 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 Art. 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. *Kraßers*

¹⁷ See Footnote 1.

¹⁸ See Footnote 2.

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 Art. 118 (1) TFEU, to have Art. 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 Art. 3 (2) of the draft-Regulation and of Art. 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 Art. 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 Art. 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 November 21, 2011 after the intervention of Ms. *Wigström*.
31. This opinion prevailed in the Legal Affairs Committee on December 19, 2011.

VII. Final appraisal

32. The campaign conducted by the "opposition" was ill conceived from the beginning. The requirements of Art. 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 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 Art. 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 Art. 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 Art. 6-8-referrals with the same competence.

28 January 2012

**Written evidence from Baroness Wilcox, Minister for Intellectual Property,
Department for Business Innovation and Skills**

Memorandum for the European Scrutiny Committee: Draft agreement on a unified patent court (33058)

Introduction

1. The European Scrutiny Committee heard evidence from the Chartered Institute of Patent Attorneys, the IP Bar Association, and the European Patent Lawyers Association on 25 January, and has received written evidence from these bodies as well as from the IP Federation, the AIPPI, the IP Lawyers Association, and the CBI. These organisations, along with other industry associations, are all represented on the Intellectual Property Office's consultation group which meets regularly to discuss the patent and court negotiations. The Government takes account of the views received from these users of the system which contribute to and inform our negotiating position. We also take into account the wider public interest and have to bear in mind the positions of our negotiating partners as well as the overall political context.

2. This memorandum is intended to respond to the concerns highlighted by stakeholders in their evidence to the Committee. Those concerns, as highlighted in the Committee's letter of 25 January 2012, are as follows:

Bifurcation

3. As the Committee heard from witnesses on 25 January, there are strong traditions elsewhere which favour bifurcation. The draft Agreement does provide options for the local divisions and central division to choose how to treat cases when infringement and validity are both in dispute. In some countries, such as Germany and Austria, under the current system local courts deal primarily with questions of infringement. If the validity of a patent is called into question then another court must rule on that issue, for example the Federal patent court in Germany. In the United Kingdom the Patents Court and the Patents County Court will usually consider both aspects of a case at the same time if invalidity is raised as a defence to infringement. But the different divisions of the Unified Patent Court are not local national courts and will have panels of judges from different nationalities. So there is an opportunity here for practice to converge across the different

divisions of the patent court as judges from different national backgrounds work together.

Costs of litigation in the UPC

4. We cannot give a definitive view of the costs and benefits, at least in monetary terms, as fees for the patent and the court are still to be decided.

5. The court is intended to be self financing from court fees in the long run. However, the participating Member States will contribute to the set up costs during a transition period when the court will not be self-financing. Member States will also be required to make special contributions to the budget in the event of a financial shortfall.

6. All those involved in the negotiations are committed to reducing the cost. For example, many Member States that currently experience low levels of patent litigation are expected to pool resources into regional divisions or may opt to have no local or regional division at all. In the latter case, disputes would be heard instead by the central division. This would reduce the overall cost of the Court system

Effect of the UPC on SMEs

7. Under the new system, SMEs will have the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions.

8. There is a very strong commitment from all involved in negotiations that the system should be affordable for SMEs. It should certainly work out cheaper for one case with a decision applying in several states than it does to have the same case dealt with in several different national courts as at present.

Exclusivity and transitional provisions

9. The question of exclusive jurisdiction of the unified patent court was already raised much earlier in these negotiations, before the reference to the Court of Justice in Opinion 1/09. The counterarguments then were that the new system needs a good input of cases to be able to build up a consistent and uniform practice across all divisions, and that is surely still true.

10. However, in order to give the new system time to establish a good reputation for high quality judgements, a transition period during which patentees can opt-out their non-unitary European patents has been included in the draft Agreement. Users have argued that the transition period of five years is too short, that European patents granted during the transition period should be eligible for the opt-out and that the system should allow flexibility for patentees and applicants to opt back in.

11. All three of these suggested improvements have been included in the latest proposals. An amendment to article 58 of the Draft Agreement has been proposed that would see the transitional period increased to seven years (rather than five), during which proceedings concerning non-unitary European patents may be initiated before national courts, and holders of European non-unitary patents and patent applications may opt-out from the exclusive competence of the court (they may also opt back in). A review will be

carried out five years after the entry into force of the Agreement, with the possibility of prolonging the transitional period by up to another seven years.

Effect of the UPC on the Patents County Court

12. The opt-out available during the transition period will allow SMEs who are patent holders or who are initiating cases to continue using the Patents County Court for a decision in respect of the United Kingdom. We also hope that the example of the Patents County Court will make a strong contribution to the Rules of Procedure which are being developed for the Unified Patent Court. There is already provision for a cap to be put on legal costs to be borne by a losing party, which is one of the areas where reforms were recently introduced in the Patents County Court.

Absence of judicial expertise in the UPC

13. Many users and practitioners of the patent system have raised concerns about the lack of experienced patent judges across the EU. The various panels of judges in each division will require judges from different countries but only a few Member States have a strong tradition in patent litigation and could provide the necessary expertise.

14. The number of judges we need will depend how many divisions there are. But given the transition period, when national courts are also available, we won't need all the patent court judges to start at once. We can start training as soon as the court is agreed. Besides our own expert judges, there are already 150 patent judges in the German federal patent court, and states where there is little patent experience are keen to develop that expertise. All the participating Member States are committed to beginning training judges as soon as the court Agreement is signed. This would ensure that enough suitably qualified and experienced judges would be able to start work as soon as the new system comes in to force. The provision of training for judges has been a key concern of smaller Member States throughout the negotiation.

Supplementary Protection Certificates (SPCs)

15. There is currently a lack of clarity around how the current system of SPCs will apply to the unitary patent and the pharmaceutical industry is quite rightly concerned. We need the Commission to bring forward legislation to extend the availability of SPCs to the new unitary patent, and the Commission has signalled its willingness to do so.

Location of the Central Division

16. Evidence received from stakeholders on the benefit to legal services business of hosting the central division of the Court has helped inform the Government's position in bidding for London. As the committee is aware Germany, France and the Netherlands have also made similar bids.

17. The location of the Central Division of the UPC is a major issue that remains to be resolved and the negotiations are still ongoing. The Danish Government, which took over responsibility for coordinating the negotiations on the Court Agreement on 1 January 2012, are seeking a way to resolve the issues that still have to be agreed by the end of their term in June. That includes the location of the central division but also other

issues - for example around financing; entry in to force; and the Rules of Procedure. Securing the Central Division for London is still an important priority for the United Kingdom.

UPC Rules of Procedure

18. The Rules of Procedure, which set out how the Agreement will operate in practice, were previously taken forward by an expert group of stakeholders advising the Commission. We understand that members of that group have been invited to a meeting on 3 February to continue their work.

19. We have been clear during the recent negotiations about our wish to see and consider a draft set of rules before signing the court Agreement.

Articles 6-8

20. We entirely understand the issue on Articles 6-8 of the patent Regulation and have raised it directly with successive Presidencies, the Commission, and others involved in the negotiations. Among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation, even if there is no published body of expert opinion to compare with the papers produced by Professor Sir Robin Jacob and others. Moreover, while we have taken opportunities to raise this issue with our counterparts, the general approach on the patent regulation agreed at the Competitiveness Council of 27 June 2011 did include these articles within the text of the regulation. I represented the United Kingdom at that meeting and mentioned the need to revisit these provisions at a later stage.

21. Although there is no published body of expert opinion there are probably two main arguments that would be put by those who do support inclusion of Articles 6 – 8 in the regulation. One argument might be that provisions on infringement set out the very core of an IP right, and therefore it is crucial that these provisions appear in the EU legislation establishing the unitary patent. In the United Kingdom it has always been the case that we see infringement and validity as two sides of the same coin, and so they should go together, but this is not the case in some other significant jurisdictions, such as Germany already mentioned, and as the Committee heard on 25 January.

22. Another argument might be that the effects would not be as damaging as people fear. Of course there must always be provision to refer questions to the Court of Justice when they concern the interpretation of EU law. In the case of the infringement provisions in the patent regulation, it has been suggested that the Court of Justice will only receive requests for a preliminary ruling if a judge feels that the wording of those provisions is unclear, and given that specialist judges will have experience of patent infringement cases, the number of references should not be significant. Equally the time taken for a reference to the Court of Justice is reported to be running at around 16 months, which would be considered speedy under some national traditions.

23. These are arguments we would need to overcome to get these provisions changed.

Conclusion

24. The unitary patent and unified patent court is a priority in the Government's growth agenda. Indeed the United Kingdom has been in the forefront in taking this forward. There is no doubt that a well-functioning unitary patent and court system will save businesses the cost and burden of maintaining and enforcing their patents separately in different countries. It will also help those who want to challenge invalid patents which hinder legitimate business.

25. We must give UK companies the same access to a single patent system for Europe that they would have in the United States or China, to support innovation, growth and competitiveness.

26. But these negotiations are not straightforward. Our European partners have a wide range of legal traditions, some very different to our own, and we have to balance the interests of patent holders, competitors and consumers. All these factors influence the ultimate design of the new system.

27. The negotiations are ongoing and the Government will continue to work hard to ensure that the interests of UK industry are protected before we sign any final agreement.

30 January 2012

Further evidence from the Chartered Institute of Patent Attorneys

Minister's Statement on Unitary Patent

We have been asked to comment briefly on the Minister's statement of 30 January.

63. We note that the case made is political, rather than economic. Nothing at all is said about economics.
64. The statement is strong on hopes, and weak on certainties. ("*opportunity...for practice to converge*" - Para 4; "*intended to be self-financing*" - Para 5; "*expected to pool resources*" - Para 6; etc. [emphasis added]). There are too many opportunities for things to go wrong.
65. The danger from bifurcation is grossly underestimated. What has arguably worked adequately in Germany will not translate to Europe as a whole. No account is taken of AIPPI's point – that (wherever the Central Court goes) patentees will sue in Germany whenever they have the chance. Industry fears that this will encourage the strong to oppress the weak, and 'trolls' to make life miserable for everyone else.
66. If the system proves not to work, we have no redress. A 'review' alone (Para 11) is not enough (reviews rarely change things much). Instead, the review should provide member countries the opportunity to change or leave the system.
67. We repeat that in principle a unitary patent is a valuable objective, and much progress has been made. But there is too much wrong with this proposal as it stands. More time is needed to get important details right.

30 January 2012

**Further written evidence from Henry Carr QC, Chairman, Intellectual Property
Bar Association**

**Brief comments on Memorandum of Baroness Wilcox for the European Scrutiny
Committee: Unified Patents Court**

Bifurcation

1. It is true that different countries have different traditions concerning bifurcation. However, the Unified Patents Court proposal raises a new and very serious issue. Under the existing system, if a case is bifurcated in Germany and an injunction is granted against infringement, the injunction applies to Germany alone. Under the new proposal, if a case is bifurcated, the injunction applies to all countries to which the unified patent extends. Therefore, an injunction may be obtained in e.g. Estonia, which applies to a factory in the UK. Some years later, when validity is considered, the Central Division may decide that the patent has always been invalid. However, the UK factory will have been shut down by then.

Costs of litigation in the UPC

2. The professions and industry have already commented on the uncertainty of the costs of litigation, and the likely increases due to increased court fees and translation costs.

Effect of the UPC on SMEs

3. The advantage of the UPC is said to be the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions. However:-
 - The patentee will have the choice of where to sue. The SME will have to defend itself in the language of the country chosen by the patentee. As

explained above, if the SME loses on infringement, the injunction will be pan-European. The effect of forum shopping is far worse than under the present system.

- Because of bifurcation, the SME may have to pursue validity at a subsequent date before the Central Division, in a different language.

Effect of the UPC on the Patents County Court

4. Because of the requirement of exclusive jurisdiction, after the transitional period, the Patents County Court will no longer exist for European and Unitary Patents. The new structure (local, regional and central divisions) is far more complex and less cost effective than the PCC.

Absence of judicial expertise in the UPC

5. This is a real problem. The quality of justice depends on the quality of judges. The proposal is to have multi-national panels. How will sufficient judges from so many countries gain the relevant experience, which takes many years of practical exposure to patent litigation?

SPCs

6. I agree with the Memorandum that there is a lack of clarity about how the current system of SPCs will apply to the unitary patent. SPCs (which extend the life of pharmaceutical patents to compensate for the years lost in obtaining authorisation to market the drug) are vital for the pharmaceutical industry.

Location of the Central Division

7. The IPBA welcomes the fact that the Government is bidding for the Central Division. This is crucial. The European Patent Office in Munich employs at least 7000 people, and apart from the Commission, is the largest European Institution.

8. If London does not get the Central Division, this will mean that the high level of expertise that exists in the UK in Patents will be lost, and the importance of the UK to patents will be seriously diminished.
9. Having two or more central divisions, which include London, would be better than nothing.

UPC Rules of Procedure

10. No further comment.

Articles 6-8

11. I note the opposition of the Government to the inclusion of Articles 6-8, and that, in spite of this opposition, the Articles are still within the text of the Regulation.
12. The Memorandum sets out two arguments that might be put by those who support inclusion, although there is no published body of expert opinion which supports them. The first argument is that the provisions on infringement set out the very core of an IP right, and therefore it is crucial that they appear in the EU legislation establishing the unitary patent.
13. I know of no body of opinion which considers infringement to be more important than validity. If a patent is invalid, it cannot be enforced against anyone. If a patent is not infringed by a particular defendant, it may still be enforced against others. The fact that some countries bifurcate is in no sense an indication that infringement is more important than validity. Yet provisions on validity are not included in the Regulation.
14. The second argument is that the number of references to the CJEU will not be significant, as it will only be necessary in cases where the provisions are unclear, which will be few, given the experience of specialist judges.

15. This misunderstands the criteria for references to the CJEU. A reference must be made unless the interpretation is *acte clair*. *Acte clair* only applies where a judge is sure, not just as to how he/she would interpret the provision, but also as to how it would be interpreted by all other member states. This has led to a large number of references in relation to the Trade Marks Directive, and published expert Opinion, including that of Sir Robin Jacob, emphasises that this will be the case with Arts. 6-8.
16. There is a clear alternative to the inclusion of Arts. 6-8 in the Regulation, which will still achieve a uniform interpretation of the infringement provisions. The provisions can be interpreted by the Court of Appeal and Central Division, which are being established by the current proposal. In these courts (unlike the CJEU) the judges will have specialist expertise in patent law.

Conclusion

17. The current proposal for the unitary patent and unified patents court has fundamental flaws. The UK Government has tried to improve the position, but the problems still remain.
18. If the Central Division is in London, it will be possible to mitigate some of these flaws. Further, the UK will be central to patents and patent litigation. If not, then the proposal gives no benefit, and much disadvantage, to the UK economy.

31 January 2012

Further written evidence from the European Patent Lawyers' Association

I am following the numbering in the memorandum of Baroness Wilcox:

4: this highlights one of the major concerns. It is not possible to vote for a new system when it is not known whether one of its main targets, i.e reducing costs for the parties involved will be met. As I said I firmly believe that at least for quite a few countries the costs will increase. Sections 5 and 6 deal with the costs the member states may have to carry and by referring to the intention that the court shall be self financing it is obvious

that there is a major risk that the costs for the parties to a patent dispute will rise substantially.

7 and 8: First, this is interrelated with section 4. Second, there is at least one very likely scenario that proves section 8 to be inaccurate. If for example a SME infringes on its home market (eg the UK) where this SME has its major market but also has a few exports to, say, Estonia, under the current system the English SME can let go Estonia and fight the case before the Patents County Court. Under the new system the English SME may find itself in the position that it must defend its position for the entire European Union including the UK before the local division in Estonia (I note that according to my understanding all member states except one so far declared that they want to have their own local division).

11: the transitional period is much too short even if it is 7 years. Experience shows that infringement cases very often are initiated rather at the end of the duration of patent protection. Accordingly, it is quite likely that a sufficient number of cases will only be decided in 15 or more years in order to really evaluate the new system.

13 and 14: this is in no relation with one of the comments EPLAW made on this issue. This concerns the lack of experience at the level of the ECJ. Even if after a while by the training efforts addressed by Baroness Wilcox there will be available a better level at experience at the level of the local divisions, this will not apply to the highest instance, i.e. the ECJ.

20ss: It is indeed striking that the Commission does not bother to present support of its view on this crucial issue. Bifurcation (whether in its present form as in Germany and Austria or in the form provided for in the drafts) never can support the inclusion of articles 6 – 8 into the draft Regulation. This becomes evident from the fact that many crucial issues related to infringement (eg interpretation of patent claims etc (see the opinion of Prof Krasser)) will not be included in the Regulation. I also disagree with the deliberations in section 22. Because articles 6 to 8 would be new body of law there is a risk (or even a need) that the meaning of this has to be interpreted from scratch. Each and every defendant will try to delay things with this argument. So, on the one hand there will have to be built up new case law which took decades under the current system. On the other there is a big risk that the interpretation by the ECJ will lead to different results than the bulk of precedent cases under the existing system. At the end infringement under EU law will be different from infringement under EPC law.

31 January 2012

Written evidence submitted by Henry Carr QC, Chairman, Intellectual Property Bar Association

Bifurcation

3. It is true that different countries have different traditions concerning bifurcation. However, the Unified Patents Court proposal raises a new and very serious issue. Under the existing system, if a case is bifurcated in Germany and an injunction is granted against infringement, the injunction applies to Germany alone. Under the

new proposal, if a case is bifurcated, the injunction applies to all countries to which the unified patent extends. Therefore, an injunction may be obtained in e.g. Estonia, which applies to a factory in the UK. Some years later, when validity is considered, the Central Division may decide that the patent has always been invalid. However, the UK factory will have been shut down by then.

Costs of litigation in the UPC

4. The professions and industry have already commented on the uncertainty of the costs of litigation, and the likely increases due to increased court fees and translation costs.

Effect of the UPC on SMEs

3. The advantage of the UPC is said to be the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions. However:-
 - The patentee will have the choice of where to sue. The SME will have to defend itself in the language of the country chosen by the patentee. As explained above, if the SME loses on infringement, the injunction will be pan-European. The effect of forum shopping is far worse than under the present system.
 - Because of bifurcation, the SME may have to pursue validity at a subsequent date before the Central Division, in a different language.

Effect of the UPC on the Patents County Court

19. Because of the requirement of exclusive jurisdiction, after the transitional period, the Patents County Court will no longer exist for European and Unitary Patents. The new structure (local, regional and central divisions) is far more complex and less cost effective than the PCC.

Absence of judicial expertise in the UPC

20. This is a real problem. The quality of justice depends on the quality of judges. The proposal is to have multi-national panels. How will sufficient judges from so many countries gain the relevant experience, which takes many years of practical exposure to patent litigation?

SPCs

21. I agree with the Memorandum that there is a lack of clarity about how the current system of SPCs will apply to the unitary patent. SPCs (which extend the life of pharmaceutical patents to compensate for the years lost in obtaining authorisation to market the drug) are vital for the pharmaceutical industry.

Location of the Central Division

22. The IPBA welcomes the fact that the Government is bidding for the Central Division. This is crucial. The European Patent Office in Munich employs at least 7000 people, and apart from the Commission, is the largest European Institution.
23. If London does not get the Central Division, this will mean that the high level of expertise that exists in the UK in Patents will be lost, and the importance of the UK to patents will be seriously diminished.
24. Having two or more central divisions, which include London, would be better than nothing.

UPC Rules of Procedure

25. No further comment.

Articles 6-8

26. I note the opposition of the Government to the inclusion of Articles 6-8, and that, in spite of this opposition, the Articles are still within the text of the Regulation.
27. The Memorandum sets out two arguments that might be put by those who support inclusion, although there is no published body of expert opinion which supports them. The first argument is that the provisions on infringement set out the very core of an IP right, and therefore it is crucial that they appear in the EU legislation establishing the unitary patent.
28. I know of no body of opinion which considers infringement to be more important than validity. If a patent is invalid, it cannot be enforced against anyone. If a patent is not infringed by a particular defendant, it may still be enforced against others. The fact that some countries bifurcate is in no sense an indication that infringement is more important than validity. Yet provisions on validity are not included in the Regulation.
29. The second argument is that the number of references to the CJEU will not be significant, as it will only be necessary in cases where the provisions are unclear, which will be few, given the experience of specialist judges.
30. This misunderstands the criteria for references to the CJEU. A reference must be made unless the interpretation is *acte clair*. *Acte clair* only applies where a judge is sure, not just as to how he/she would interpret the provision, but also as to how it would be interpreted by all other member states. This has led to a large number of references in relation to the Trade Marks Directive, and published expert Opinion, including that of Sir Robin Jacob, emphasises that this will be the case with Arts. 6-8.
31. There is a clear alternative to the inclusion of Arts. 6-8 in the Regulation, which will still achieve a uniform interpretation of the infringement provisions. The provisions can be interpreted by the Court of Appeal and Central Division, which are being established by the current proposal. In these courts (unlike the CJEU) the judges will have specialist expertise in patent law.

Conclusion

32. The current proposal for the unitary patent and unified patents court has fundamental flaws. The UK Government has tried to improve the position, but the problems still remain.
33. If the Central Division is in London, it will be possible to mitigate some of these flaws. Further, the UK will be central to patents and patent litigation. If not, then the proposal gives no benefit, and much disadvantage, to the UK economy.

Written evidence from the Office of the City Remembrancer

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 2011.¹⁹ 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 2010.²⁰ In a survey of global corporations, 30% expressed a preference for London as

¹⁹ TheCityUK, ‘Legal Services Report 2011’, February, 2011.

²⁰ White & Case LLP, ‘2010 International Arbitration Survey: Choices in International Arbitration’, October, 2010.

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 (compared to approximately 30-35% in German and 10-15% in French).²¹ 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.

²¹ Figures from Dialog LLC, 'European Patents Fulltext', 'Bluesheet' #348, November, 2009.

7 February 2012

Further Evidence in Writing for the European Scrutiny Committee: Draft Agreement and Regulation on a Unified Patents Court

**Henry Carr QC
Chairman, Intellectual Property Bar Association**

Introduction

1. Following my oral evidence to the European Scrutiny Committee on Wednesday 25th January 2012, I have been asked by the Committee to provide further evidence on the following questions:-
 - (i) The location of the Central Division (and Court of Appeal) and the extent to which it will enhance the economic prosperity of the country where the Central Division is located.
 - (ii) Whether Europe as a whole, or alternatively particular countries, are likely to benefit from the current proposal.
 - (iii) The position taken by Italy and Spain in relation to Unitary Patents.
 - (iv) The alternative to the inclusion of Arts. 6-8 in the Regulation, and the extent to which this alternative has been considered by the Commission.
 - (v) Any other issues that occur to me following the Committee's line of questioning, including reasons why member states are keen to press on with the proposal and the effect on UK interests.

Impact of the location of the Central Division / Court of Appeal of the Unified European Patent Court

2. Annex I is a briefing note that I have received from the Intellectual Property Lawyers' Association ("IPLA"²²) concerning the benefit to the UK of securing the Central Division. The essential points are as follows.
3. Although estimates vary, the current annual spend by industry (much of it from overseas) on patent litigation and associated advisory services in the UK is about £700 million. If the Central Division is located outside the UK and, if, as a result, most litigation is conducted elsewhere, this is projected to decline significantly. By contrast, the volume of patent cases heard in the UK (and consequent annual spend) may increase considerably, if the Central Division is located here. This seems conservative, as all validity challenges and all declarations of non-infringement will be heard by the Central Division.
4. The Central Division will create a significant number of highly skilled jobs. By way of comparison, the European Patent Office is located in Munich and employs

²² IPLA's members conduct most patent litigation in the UK.

at least 7000 people (the briefing note suggests a higher figure). Four times as many German nationals are employed at the EPO than UK nationals. Whilst the Central Division will not require as many staff, it is likely to be a major European institution, with consequent indirect enhancement of its location. As previously noted, if the Central Division goes to Germany, the bulk of the patent system, from grant to enforcement would be there.

5. If the Central Division is not in London, the current proposal will bring no benefit to the UK and considerable disadvantage to the UK economy overall.
6. It is not clear that there has to be only one seat of the Central Division. One option would be for the Central Division itself to have separate “seats” of which one would be the UK. From a UK perspective, this would be better than nothing. Alternatives such as these have not been considered.

Whether Europe as a whole, or alternatively particular countries, are likely to benefit from the current proposal

7. For the reasons already given in my evidence, I do not believe that Europe as a whole is likely to benefit from the current proposal. Because of its fundamental flaws, it is likely to be significantly worse than the existing system. However, the country where the Central Division is located is likely to benefit disproportionately from a system which is, as a whole, worse (see above).
8. The CCBE paper expressed concern about forum shopping and SME defendants finding themselves brought into a remote forum. There is a real fear in some quarters that some SME’s will fold because they are unable to get themselves properly represented in a distant European division and/or, if subject to a Europe-wide injunction from a remote court in a bifurcated system on their main product line, will simply not have the funds (without a product to sell) to enable them to establish that the patent is in fact invalid within a reasonable time. That would amount to a denial of justice. I am not persuaded that this concern has been taken on board.
9. These concerns are not just shared by the professions and the judiciary. They have also been expressed by industry. For example, on 16th December 2011 the CBI and IP Federation wrote to Baroness Wilcox describing the current proposals as “deeply flawed” and that they would, if accepted create a patent system worse than at present. The letter was endorsed, *inter alia*, by the Bioindustry Association. There is anecdotal evidence that substantial research-based undertakings are so concerned that they have started to file national instead of European patents, in an attempt to avoid the system altogether.

The position taken by Italy and Spain in relation to Unitary Patents

10. For about the last 10 years, Spain has argued that the proposed Unitary Patent (previously named the EU Patent) should be filed in English as the sole language, or alternatively in all the official languages of the EU. Spain has consistently refused to accept a language regime comprising English, French and German but

not Spanish. Similarly Italy has refused to accept a regime that does not include Italian.

11. As a result, on 10 March 2011 the Council of the European Union authorised “Enhanced Co-operation” in respect of the EU patent, a procedure whereby a group of Member States may go forward with a proposal notwithstanding that unanimous agreement between all EU Member States has not been reached. As Spain and Italy are not part of that group, the EU patent was re-named the “Unitary” patent. Spain and Italy have launched proceedings in the CJEU seeking to nullify the decision to adopt Enhanced Co-operation. Those proceedings²³ are pending.

The alternative to the inclusion of Arts. 6-8 in the Regulation, and the extent to which this alternative has been considered by the Commission

12. Annexes 2 and 3 are Opinions of Professor Sir Robin Jacob in relation to Arts. 6-8 of the draft Regulation. The first Opinion sets out why the inclusion of Arts. 6-8 would be (a) unnecessary and (b) disastrous. The further Opinion elaborates why Arts. 6-8 are unnecessary, and answers an argument to the contrary from an unnamed source in the Commission.
13. An essential point is that Art. 3(2) of the draft Regulation states that:

“A European Patent with unitary effect shall have a unitary character. It shall provide uniform protection and shall have equal effect in all participating member states”

14. It follows that, in the absence of Arts. 6-8, the Regulation already provides for uniform protection, and no participating individual member state is free to ‘go it alone’. This applies just as much to infringement as to validity. As Sir Robin explains:

“Only valid patents can provide rights. It is just as important to unitary effect that the provisions concerning validity are uniform as that the provisions concerning infringement are uniform. If the logic of the author [from the Commission] is correct, it would also be necessary to provide in the Regulation for all matters concerning scope and extent of protection. This would mean incorporating the relevant provisions of the European Patent Convention. But no-one suggests that this is necessary.”

15. The next question is, what is the alternative to the CJEU to ensure uniform protection amongst participating member states? The answer is the Central Division and the Court of Appeal, which are being established by the current proposal. In these courts (unlike the CJEU) the judges will have specialist expertise in patent law. Further, it must be envisaged that these Courts will interpret the *validity* provisions to ensure ‘unitary character’. It is wholly unclear why a different regime is proposed in respect of the *infringement* provisions. Many granted patents are invalid upon analysis. Moreover, for many patent cases, validity

²³ C-274/11 Spain v. Council; C-295/11 Italy v. Council.

and infringement are closely related.²⁴ The current proposal contemplates that the CJEU alone in the system would be required to consider the law of infringement but required *not* to consider the law of validity. Against that background, the proposal makes no sense at all.

16. In the Scrutiny Committee's Report of 20 December 2011, it asked whether there was a body of countervailing expert opinion which welcomed the advent of the Court of Justice's involvement. I have not seen any. Indeed, it is unclear whether any impact assessment has been done by the EU authorities of the effect of requiring the CJEU to determine questions of infringement when it cannot determine questions of validity, in the manner proposed.
17. I believe that the Commission is aware of the Opinions of Sir Robin Jacob, and of an Opinion to like effect by Professor Dr. Rudolf Krasser of the influential Max Planck Institute. However, these views have been brushed aside, in spite of no published opinion to the contrary. Furthermore, the Legal Affairs Committee of the European Parliament is also pressing on with Arts. 6-8. These Articles are likely to be contained in the Regulation, given that the major political groups are backing it, without any regard to its implications. Given the complexity of the law, it is for question whether those political groupings fully understand their implications.

Any other issues that occur to me following the Committee's line of questioning, including reasons why member states are keen to press on with the proposal and the effect on UK interests

18. The current proposal is moving forward relentlessly, in spite of a groundswell of objections from the IP judges throughout Europe, the professions and industry. It was suggested in oral evidence by Mr Roberts, President of CIPA, that the most likely explanation for this is that the EU wishes to announce a success. A single patents court for Europe has been under discussion for decades. No doubt, it would feel like an achievement to bring this project to a conclusion. That is not, I believe, an excuse for inadequate legislation²⁵. The UK Government has said of this proposed legislation that it is "essential that we get the details right" (letter from Baroness Wilcox. of 16th November 2011 referred to in footnote 4 above). That is the overwhelming view of those working with the system.

²⁴ The ECJ noted in GAT, Case C-40/03 at para. 17: "In practice, however, the issue of a patent's validity is frequently raised as a plea in objection in an infringement action, the defendant seeking to have the claimant retroactively denied the right on which the claimant relies and thus have the action brought against him dismissed. The issue can also be invoked, as in the case in the main proceedings, in support of a declaratory action seeking to establish that there has been no infringement, whereby the claimant seeks to establish that the defendant has no enforceable right in regard to the invention in question." (emphasis added). That case, which concerned the rules of exclusive jurisdiction under the Brussels Regulation and not the substantive law on infringement, itself illustrates the problems in dividing determination of validity and infringement.

²⁵ Note also that on 16th November 2011, Baroness Wilcox wrote to Martin Korolec, the Polish Under-Secretary of State, when Poland had the Presidency of the EU. The letter said that there were "significant issues" which had to be resolved before the UK could consider adopting the draft court agreement. These were not just the location of the Central Division but included cost, Article 6-8, rules of procedure and a number of other points. None of those issues have been resolved.

19. The fact remains that the current proposal is for a worse regime than the existing one. One of the Senior Research Fellows of the Max Planck Institute in Munich wrote a critical paper on the proposals recently, in which he observed that “a bad court would be worse than no court at all.”²⁶ This too reflects a widely held view.
20. What makes for good short-term political announcements in the EU does not make practical long term sense for industry. There is a risk that the politicians will agree the current proposal and move on, leaving industry to pick up the pieces after the politicians are gone. The most significant change to the patent landscape in Europe in over 30 years must surely improve the system significantly, not make it worse, just for the sake of hurried enactment of legislation.

2 February 2012

²⁶ Jaeger, *All Back to Square One? An assessment of the latest proposals for a patent and court for the internal market and possible alternatives.* (December 15, 2011) Max Planck Institute for Intellectual Property and Competition Law Research Paper No. 12-01. The paper states that the current proposals “show flaws on both the level of the substantive patent and of its flanking court model” and that “it is neither desirable nor advisable to push a bad follow up compromise to the EEU/PC model through the legislative process at any cost.” Yet, the EU stands on the brink of doing that.