

International

Moving ever closer to the unitary patent

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The chapter “A unitary patent: not if, but when” in *IP Value 2012* considered the state of play concerning the proposed European unitary patent and concluded that it was just a matter of time before the final loose ends were brought together. The Hungarian and Polish presidencies of the European Union had indicated their intentions to conclude agreement before the end of 2011 and deadlock was not considered an option given the high stakes. Since then, a number of important knots have been tied and the unitary patent does indeed appear closer than ever.

This chapter examines the latest developments and the effect that they will have on the final outcome, as well as considering the preparations that portfolio managers should be making in anticipation.

Background

In early 2011 the European Court of Justice (ECJ) set the scene for further progress in the patent field by giving the green light for a group of EU member states to proceed independently of the rest. Its binding opinion regarding the legality of this ‘enhanced cooperation’ was conditional that any court set up to handle disputes should fall within its jurisdiction. In this manner, any failure of the new court to uphold the body of European law could be reviewed by the ECJ and appropriate penalties issued. Following the decision, rapid steps were taken to finalise two draft regulations:

- the first implements what was referred to as “enhanced cooperation in the area of creation of unitary patent protection” (the unitary patent regulation); and

- the second defines the applicable language regime for the unitary patent.

These regulations would be EU instruments but limited by the principle of enhanced cooperation only to those countries that chose to participate. At present, all EU member states except Italy and Spain have indicated their intention to join – those two countries have submitted a complaint to the ECJ that they consider the cooperation to be discriminatory.

The only remaining agreement to be reached concerned the establishment of a court competent to decide on the new patent. A draft court agreement was prepared that allowed individual states to establish local or regional divisions and foresaw a single central division, primarily responsible for hearing invalidity actions with a central court of appeal. In December 2011 a package of measures, including the draft court agreement, was discussed at the meeting of the EU Competitiveness Council. Despite coming so far, that meeting failed to achieve the final breakthrough – allegedly due to a failure to agree on the seat for the central division of the new court. Nevertheless, it appears that a number of other controversial issues underpinned this failure.

Under the lead of the Danish presidency, these issues were revisited at a European Council meeting in June 2012. Amid cheers and jubilation, a press release announced that the last outstanding issue had been resolved and that Paris, Munich and London would share the seat between them. It was only once the celebrations died down that the footnotes to the agreement became clear. Legal experts of the European Parliament claimed that the council had exceeded its mandate and that the

unitary patent was heading full speed into a dead-end street.

What has changed?

At the December 2011 council meeting, in an effort to achieve closure, a number of preliminary agreements were reached. In particular, the seat of the court of appeal for disputes involving unitary patents was allocated to Luxembourg. Portugal and Slovenia were awarded patent mediation and arbitration centres in Lisbon and Ljubljana respectively, and Hungary was announced as the location of a training centre for patent judges. The failure to agree on a seat for the central division was seen as a matter of intransigence of the three main patent powers: France, Germany and, in particular, the United Kingdom. Nevertheless, it transpired that behind this intransigence lay a number of substantial differences of opinion regarding the operation of the system.

Competence of the ECJ

The unitary patent regulation included a number of provisions defining the effects of the unitary patent. These provisions, encompassed in Articles 6 to 8, set out the principles of direct and indirect infringement and enumerated a number of non-infringing acts. Being an EU instrument, the regulation, if passed, would form part of the body of EU law falling under the competence of the ECJ. Any questions regarding interpretation of these articles would therefore have to be referred to the ECJ before a lower court could proceed. A number of parties had called for these provisions to be removed from the regulation in order to avoid the delay of waiting for the ECJ to respond to such questions. In the past, the ECJ has been criticised for its alleged inability to handle trademark-related questions emanating from the EU Trademarks and Design Office in Alicante in a timely manner and its lack of technical expertise when it came to dealing with referrals in relation to supplementary protection certificates for pharmaceuticals. The UK government had apparently taken this cause to heart and was determined to make the point understood. An important driver was the need to protect small and medium-size enterprises, which could be held to ransom by the threat of added costs and delays of an ECJ referral.

It may seem sensible to some that Europe's highest court is involved in defining the law in this area. Nevertheless, not all aspects of patent law would fall within its competence. The main substantive provisions of patentability – namely, novelty, inventive step and sufficiency – are not to be found within the body of EU law. These provisions are to be found in the European Patent Convention of which the EU member states are direct signatories. The European Patent Office (EPO) would be the body responsible for granting unitary patents via its branches in Munich, The Hague and Berlin, but the EPO is not subject to the ECJ scrutiny. The convention does not include provisions regarding enforcement of a patent, but merely refers to the laws of the individual members states.

As the unitary patent regulation now stands, questions regarding the interpretation of the law on infringement could be referred to the ECJ, while questions on validity would not. Both of these aspects are considered to require specialised knowledge of patent law, and potential users of the system have argued that such competence is not to be found at the ECJ. Existing backlogs at the ECJ would only increase as parties use referrals to delay. The system would grind to a halt. On the other hand, supporters of maintaining the ECJ as the final instance for such matters point out the need for harmonised, EU-wide protection of patent rights. The ECJ, in its opinion on the legality of enhanced cooperation, had emphasised its need to have the final say in matters of EU law.

The June decision strongly recommended for these articles to be deleted from the regulation – and it was this issue that was a sticking point for the European Parliament.

Bifurcation

The second bargaining chip at the negotiating table concerned the matter of bifurcation. In Germany and certain other European jurisdictions, it has been customary to hear validity and infringement of a patent in separate actions before different courts. The draft court agreement was initially strongly biased towards bifurcation, with infringement actions being heard by local divisions and validity being heard by the central division. Only in a number of

exceptional situations would actions be heard together. Significant voices had spoken up against this imposition, especially those from an Anglo-Saxon legal background. The main objection against bifurcation is that parties have the opportunity to argue one way before one court and then essentially contradict themselves before the other court, without adverse consequences. Added to this is the extra cost of doing work twice and the danger of either case being delayed.

The arguments in favour of bifurcation have focused on three points:

- the alleged lower technical complexity of infringement proceedings allows an infringement court to operate without technical judges, reducing expense;
- a single specialist validity court is the cheapest, quickest and best way of dealing with validity, since a large pool of technical experts can be made available covering all technical fields; and
- experience shows that the expense and delay of invalidity proceedings can be avoided in 75% of cases where validity is not contested.

The deal brokered at the June council meeting confirmed that parties would have the choice to bring an infringement action before the central division if the defendant is domiciled outside the European Union. Furthermore, if a revocation action is already pending before the central division, the patent holder should also have the possibility to bring an infringement action to the central division. Nevertheless, for European defendants, it appears that bifurcation may remain in cases where proceedings are commenced by an infringement action.

What remains unclear is the potential flexibility that a local division would have to refer an infringement case to the central division in cases where validity is challenged.

Implications

Perhaps the most important implication of the decisions taken by the European Council lies in the fact that the work of the central division will be divided between three locations. Although unsaid, it would appear that the host countries will be looking to increase the overall

volume of cases handled centrally in order to achieve the required economies of scale necessary to keep sufficient specialised judges active. Had the central division been awarded to one of the states, then the other two would have worked hard to make their own courts attractive and diminish the powers of the central division to hear cases. As the deal now stands, the three jurisdictions where most patents are litigated will be seeking to increase the powers of the central division at the expense of the local divisions. It is even conceivable that with three competent central divisions, no local divisions are established.

London has been nominated as the forum for handling life science and pharmaceutical cases. Given that the central division will hear infringement and validity of cases where the defendant is domiciled outside Europe, we may expect high-profile suits to be filed (eg, against non-European generic drug manufacturers) in London. The rules of procedure of the new court have not yet been finalised but there appears to be sufficient discretion to allow the London division to develop procedures suitable for high-value cases.

As the central division handling telecommunications litigation, Paris will hear the major cases involving US and Asian multinational defendants. On the other hand, overseas rights holders serving infringement actions on European businesses would likely be subject to bifurcation, especially if local division judges see the Paris division working effectively. It remains to be seen how the court agreement deals with enjoined cases involving both a local subsidiary and an overseas parent as defendants, but patent proprietors will probably have the upper hand in determining that the central division is the chosen venue.

In Munich, the situation may be somewhat different. Germany already handles more cases than any other venue – much of which involves litigation in the mechanical fields between European businesses. Those cases are already subject to bifurcation, with validity being handled by the Federal Patent Court in Munich and infringement by the various courts of the *Bundesländer*. It appears that for these cases, little will change and the highly efficient system – which the Germans fought hard to retain – will continue.

An obvious and troubling implication will be the allocation of those cases lying at the boundaries of the technical fields. This will be a major concern if differences in quality and procedure are allowed to develop between the three locations. Hopefully distribution will be determined in an objective, predictable and non-contestable manner. The system will also have to cope with changes in the relative volumes of litigation between locations. The initial shares were intended to be set at 40%-30%-30% for Paris, London and Munich respectively, but how this develops in terms of real workload will depend on many factors.

What next?

At the time of writing, the final details of the court agreement and its rules of procedure were not yet defined. The final boundaries of bifurcation are difficult to predict but hopefully the system will be flexible enough to give judges the discretion that they need without opening the floodgates for forum shopping. Will Articles 6 to 8 be in or out? One way or the other, the ECJ must be comfortable with the result and with the scope of its mandate to give direction to patent law in Europe. If not, the deal will be off.

If all goes well, the first unitary patents could be granted from 2014. Those first patents are already filed and pending as European patent applications. How will the EPO deal with cases granting during 2013 once the details of the unitary patent have been finalised? Will deferred grant be permitted, allowing applicants to benefit from the fruits that have been forbidden to them for so long or will they be obliged to proceed to grant of an EP bundle patent? Without deferment, whether an applicant can proceed with a unitary patent or is obliged to follow the old national route will depend on the whim of the examiner handling the case and whether he or she issues the advanced notice of grant before or after his or her 2013 summer vacation. Applicants wishing to increase the chances that their pending applications become unitary patents may need to delay or consider filing divisional applications.

Transitory provisions must be considered: there will remain the possibility for doubters to opt in and out of the unitary patent for an initial period, presently set at five years. The

unitary patent court will be competent to hear disputes concerning both unitary patents and classic European patent bundle patents. The opt-out clause will, however, act as another form of forum shopping, potentially allowing a first mover against a patent to seek invalidation in a national court.

For those whose doubts go deeper still, the national patent systems will remain operational and not subject to the jurisdiction of the new court. Companies wishing to keep all options open should thus already be considering filing similar (but not identical) patents via the EPO route and national routes – at least until any initial teething problems of the new system are resolved.

What about oppositions? At present, filing an opposition within nine months of grant is a cost-effective opportunity to invalidate a patent centrally via the EPO in Munich, The Hague or Berlin. This will surely remain a strategic option, giving an additional chance of revocation. Nevertheless, with the expectation that the court will be established, a party may already choose not to rush the case and wait instead to act via one of the central divisions in due course.

Conclusion

The unitary patent will hopefully have something for everyone:

- institutions in seven jurisdictions, stretching from Lisbon to Luxembourg and from London to Ljubljana;
- options for bifurcated or combined validity and infringement proceedings according to the needs of the case;
- a subtle role for the ECJ – recognising its hierarchy in the European legal order without burdening it with trivial technical detail; and
- adequate discretion for judges to develop central divisions into venues of choice for high-value international litigation, while local and regional divisions continue to administer cost-effective justice to European small and medium-size enterprises.

The unitary patent is now just around the corner and the time has come to start preparing. *iam*

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