

Introduction

This review article firstly looks at the current state of play in terms of obtaining and enforcing patents in Europe. It then outlines the changes which are proposed in terms of the unitary patent and the unified patents court and sets out where the legislative process has got to in relation to those changes.

The European Patent Convention

The European Union currently has 27 member countries. To protect their inventions in this market of more than 500 million people, business has had no alternative other than to obtain 27 separate national patents, one for each European country, and then to enforce them separately on a country by country basis. In China, India and the US by contrast single patents cover populations of 1.34 billion, 1.2 billion and 312 million respectively.

The position was ameliorated somewhat by the implementation of the European Patent Convention (EPC): since 1 June 1978 it has been possible to file a single patent application at the European Patent Office (EPO) in Munich and to designate all EU states¹ in that application, with the result that, if granted by the EPO, a patent application has the potential to become a bundle of national patents (EPC patents), in all the countries designated in the application.

The EPC has been a huge success with over 200,000 EPC applications² now being filed annually. However patent protection in Europe is still expensive as on grant national EPC patents, flowing from an EPC application, have to be validated³ in each country where the applicant desires to have patent protection. Thereafter any patents obtained will need to be renewed annually, on a country by country basis.

Validation involves translation of the patent specification in some countries (see below) as well as paying publication fees and complying with various formal filing requirements. The overall average cost of validation is estimated to be about €12,500 for 13 member states and €32,000 if a patent is validated across all 27 EU member states⁴.

Once a patent has been successfully validated in a particular country to keep it in force renewal fees have to be paid annually. If these are not paid then the patent lapses. The level of renewal fees varies considerably across the EU. The deadlines for payment differ between different countries. In some countries payment of renewal fees is still not possible by bank transfer. Finally some countries mandate the appointment of a patent attorney to deal with renewals and require all communications to them to be in their local language.

A consequence of these costs is that the average EPC patent application is now validated in only five countries⁵. These problems have long been recognised however and one practical step taken to address them was the London Agreement.

The London Agreement

An application for a European patent can be made in any national language of a member state but has to be translated in one of the three official languages of the EPO: English, French or German and whichever language it is translated into (if necessary) then that becomes the language of the proceedings for that patent and all documents provided have to be translated into it. When a European patent specification is published as an application or on grant it is published in the chosen official language and the claims have to be published in the other two official European languages⁶.

Before 1 May 2008 an EPC patent had to be translated into the language of each country in which it was to become a granted patent, within three months of the date of grant of the European patent or it would be deemed to be void ab initio in that country⁷. As the EPC countries speak more than 25 different languages, that led to very high translation costs, where broad geographical coverage was sought. In many cases it led patentees to focus on a smaller number of core countries⁸ in which to pursue protection on grant.

1 And 11 non-EU states including Turkey with a population of more than 70 million. A European patent application can also be extended to two non EPC countries - Herzegovina, Montenegro, making 40 countries in all.

2 This figure includes Patents Co-operation Treaty applications which designate the EPO as well as direct EPO filings.

3 This involves paying a national fee, complying with certain local requirements and providing translations of the patent or at least the claims, in accordance with the London Agreement.

4 See European Commission document com(2011) 215 final, page 1.

5 Study of the costs of patenting by Roland Berger Market Research.

6 Article 14(6) of the European Patent Convention.

7 Article 65(1) of the European Patent Convention.

8 An often favoured combination being the UK, France and Germany and then Italy and Spain in the next tier.

The London Agreement⁹ has, since 1 May 2008, materially reduced translation costs in those countries which are signatories to it. Its key provisions are that:

- (i) Countries that have English, German and French as their national official language cannot require any translation of a granted EPC patent in their countries. At least the claims will be in the national language of such a country.
- (ii) A country which does not have English, German or French as its national language can only require the claims of an EPC patent to be translated into its national language, if the patent is in the official language which that country has designated as its official EPC language for the purpose of the London Agreement. In practice all such countries have nominated English as their official language for the London Agreement so that if an EPC patent specification is in English only the claims will require translation into the local language. If a patent is published in either French or German then the whole specification (description and claims) will still require translation.

Currently only 18 of the 38 EPC countries have signed up to the London Agreement. Italy and Spain have stated that they do not intend to ratify the London Agreement.

Enforcement of European Patents

As if the costs of obtaining and maintaining patent protection in Europe were not bad enough, things get much more expensive (and uncertain) when it comes to enforcement.

Although a number of European countries (mostly notably the Netherlands and Germany), have tried to grant injunctions against defendants within their jurisdictions in respect of infringements of parallel EPC patents outside their own jurisdictions, it is now clear that the infringement of national EPC patents will almost invariably have to be dealt with in the countries where those patents are registered¹⁰. Where validity of the patent is put in issue in infringement proceedings then the national court in the country where the patent is registered will always have exclusive jurisdiction¹¹.

In practice this means that patent litigants in Europe will almost always end up suing in the national courts, where the EPC patent is registered. Where there are multiple infringements across several European countries, then such a multiplicity of actions can quickly become very expensive, enormously time-consuming and often just plain frustrating. In addition there have been a number of high profile cases in which courts in different European countries have ruled differently on the meaning and effect of national EPC patents¹².

The Community Patent

The treaty that created the European Community (the forerunner of the European Union) was concluded by six signatory countries in 1957. It was soon realised that having separate patents for each European country would prove burdensome, expensive and could frustrate the economic integration of the founder EC members. Therefore as long ago as 1959 a working group was set up to consider introducing a Europe wide patent. Its blue print for the European patent (the Haertel draft) was published as long ago as 1962.

In 1975 the Community Patents Convention (CPC) was signed by all the then nine member states of the European Community. It envisaged a single unitary community-wide patent being granted as the result of an application to the EPO as well as a number of national patents in countries which were signatories to the EPC but not members of the EC.

The CPC however never came into force as it was not ratified by enough of the signatory countries. An attempt to revive the Community Patent in 1989 also failed.

The issues that have dogged the project since the beginning have related to the choice of the language(s) that the system would use, the physical location of the courts which would deal with such patents as well as the procedural rules that such courts would use.

Progress At Last: Most But Not All

From 1989 until 2009, little progress was made towards implementing any form of Europe-wide post-grant patent system. A meeting of the EU Competitiveness Council in December 2009 however finally agreed a set of principles to implement a more integrated patent system for Europe. At its core were two fundamental elements:

- (i) The creation of a unitary EU patent.
- (ii) The creation of a common patent litigation system with exclusive jurisdiction relating to both the infringement and the validity of the new EU patent as well as for EPC patents.

Unfortunately the Competitiveness Council envisaged that the language/ translation issues relating to the EU patent would require unanimity amongst all 27 Member States. That was never going to be easy to achieve. Spain and Italy in particular opposed any proposals, which they saw as promoting an EU patent in English, German or French. In any event the Court of Justice of the European Union (CJEU) ruled in March 2011 that the then proposed Europe wide arrangements were unlawful as they proposed the creation of a court system outside the EU legal framework¹³.

9 The Agreement on the application of Article 65 of the Convention on the Grant of European Patents, which came into effect on 1 May 2008.

10 See the CJEU decisions in *GAT v Luk* (C-4/03) and *Roche v Primus* (c-539/03).

11 Article 22(4) of the Brussels Regulation 44/2001/EC.

12 Most famously in *Improver v Remington Consumer Products* [1990] FSR 181, where the German national court ruled there was infringement and the English court ruled there was not.

13 See Opinion 1/09, dated 8 March 2011.

In December 2010, a number of member states, tired of the lack of progress, asked the European Commission to work with them to implement a unitary European patent – limited only to those countries that wanted to work together to achieve it. Such a coalition of the willing is permitted by European Union law, under what is known as the enhanced co-operation procedures¹⁴, which were introduced by the Treaty of Amsterdam in recognition of the fact that progress by some but not all on implementing certain kinds of objectives should not be held up merely because not every country could be brought on board.

The use of the enhanced co-operation procedure has turned out to be the turning point and since December 2010 progress has been rapid – many now say too rapid. In February 2011, the European Parliament voted in favour of the use of the enhanced co-operation procedure to introduce a unitary patent. In March 2011, 25 out of 27 EU states (“the Enhanced Cooperation States”) formally agreed to work towards a unitary patent. The abstainers are Italy and Spain.

The Unitary Patent

There will be two regulations¹⁵ to implement the unitary patent:

- (i) The first regulation¹⁶ deals with, inter alia, how a unitary patent is to be obtained; and
- (ii) The second regulation deals with translation requirements.

Obtaining a Unitary Patent

Unitary patents will start life as applications made to the EPO. The application and examination procedure for unitary and EPC patents will be identical up to grant.

The difference will kick in after grant. After grant a patent proprietor can opt for:

- (i) A bundle of national patents in the usual way; or
- (ii) A unitary patent with unitary effect in all 25 Enhanced Cooperation States; or
- (iii) National patents in non-Enhanced Cooperation States plus a unitary patent in the Enhanced Cooperation States.

The EPO will keep a register of cases where patentees have opted for unitary patent protection. The national patent offices in Enhanced Cooperation States must cancel local equivalent patents when a notice of grant of a unitary patent has been published by the EPO: there cannot be both a national patent deriving from an EPO application and a unitary patent covering the same country.

An aspect of the current draft regulation on the unitary patent that has proved particularly contentious is the inclusion of substantive provisions defining what amounts to infringement (article 6), indirect infringement (article 7) as well as various limitations on the rights of patent holders (article 8). The concern is that these provisions will be subject to review by the CJEU, which is fundamentally an administrative court rather than a specialist patent court. This says the critics is bound to lead to delays and uncertainty.

Languages For the Unitary Patent

On the vexed question of languages and translations the current proposals¹⁷ envisage the following position:

- (i) For a transitional period of as yet unspecified length, where the language of the EPO proceedings is German or French a full translation of the patent into English will be required.
- (ii) For a transitional period of as yet unspecified length, where the language of the EPO proceedings is English, then a translation of the patent into either French or German will be required.
- (iii) Once the transitional period has expired then generally no translation will be required and the patent will be left as published by the EPO in German, French or English with the claims in the other two languages.
- (iv) Where there is a dispute, the patentee will, at his own expense, have to translate the patent specification into the language of any legal proceedings in which the patent is being litigated.
- (v) The EPO is eventually to make available high quality machine translations of unitary patents into all the official languages of the Enhanced Cooperation States.
- (vi) Where applicants file patent applications at the EPO in a language which is not French, German or English but then incur translation costs they shall be entitled to a reimbursement of part of their official EPO filing fees.

Perhaps unsurprisingly, Italy and Spain lodged a complaint with the CJEU on 7 June 2011 seeking a declaration that the proposed language/translation agreements unfairly prejudice them. That challenge has yet to be heard by the CJEU.

The Court System Which Will Litigate the New Patents

One of the main drivers behind the unitary patent is to avoid a multiplicity of separate national actions, one in each European country. To achieve that, the Council of the European Union has put forward a draft international agreement (the Agreement on a Unified Patent Court) to be entered into between member states, which proposes a court structure to deal with the litigation of the unitary patent and also a conventional EPC patent.

¹⁴ Now set out in Articles 326 – 334 of the Treaty on the Functioning of the European Union.

¹⁵ Regulations are EU laws, that are directly effective and applicable without requiring individual member states to introduce laws to implement them.

¹⁶ See Com(2011) 215 final dated 13 April 2011: draft regulation implementing enhanced cooperation in the area of the creation of unitary patent protection.

¹⁷ See Com(2011) 216 final, dated 13 April 2011: draft regulation implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements.

The last version of the agreement to be published was Council draft 16741/11 on 11 November 2011, as amended by Council document 17317/11 dated 22 November 2011. However a later draft (Council document 18239/11), which was the subject of a Competitiveness Council¹⁸ agreement in principle in December 2011, has never been published, despite requests by several member states to do so.

Some key features of the Unified Patent Court (UPC) proposals, as set out in the 16741/11 draft, as amended by document 17317/11, are:

- (i) There will be a two tier court system, comprising a Court of First Instance and a Court of Appeal.
- (ii) The Court of First Instance will have a central division as well as local and regional divisions. A local division of the Court of First Instance can be set up in a single member state: busy states with more than 100 cases a year over a three year period can have more than one local division court. A regional division can be set up by two or more contracting states.
- (iii) The central division will be based in Paris but additional specialist sections of the central division will be located in London (for chemistry and pharmaceuticals and other similar technical areas) and in Munich (for mechanical engineering)¹⁹.
- (iii) The Court of First Instance will sit with three judges²⁰, drawn from an approved and suitably trained pool. At least one of the judges will be a national of the country in which the dispute is being litigated. Where a local division of the court hears more than 50 cases a year (three year average) then two of the judges can be local. The central division will have two legally qualified judges from different countries and one technically qualified judge.
- (iv) The Court of Appeal will have a multinational composition of five judges²¹. It will consist of three legally qualified judges, who are nationals of different contracting states and two technically qualified judges with qualifications and experience in the field of technology concerned. The Court of Appeal will be based in Luxembourg.
- (v) Defendants can be sued for infringement in the local division where the infringement has occurred or may occur or in the local division where the defendant (or in the case of multiple defendants at least one of them) is resident or has a principal place of business.

- (vi) The Court of First Instance will have exclusive jurisdiction in relation to infringement and revocation proceedings for unitary patents. For the first seven years after the UPC Agreement comes into force, infringement and revocation proceedings for existing EPC patents may be brought in the existing national court systems of member states²² but after that seven year transitional period has expired the Court of First Instance will have exclusive jurisdiction in relation to such patents as well, unless the patentee has lodged an opt out (see below). The seven year transitional period may be extended for a further period of up to seven years, after a review of how the UPC is working²³.
- (vii) Holders of European patents, granted or applied for before the date on which the UPC Agreement comes into effect, will be able to exercise a revocable opt out from the exclusive jurisdiction of the First Instance court²⁴. Patents, in relation to which the opt out has been exercised, will not be subject to the jurisdiction of the UPC *at all* as long as the opt out has not been withdrawn: such patents cannot be subject to either third party revocation or negative declaration proceedings in the UPC. Given the uncertainties which surround the UPC proposals the opt out is likely to become a very important procedural step in practice.
- (viii) A particularly contentious aspect of the proposed arrangements is the interaction between revocation proceedings and infringement proceedings. In the UK historically infringement and revocation proceedings have been heard together, which makes it difficult for a patentee to argue different constructions for his patent in infringement and revocation proceedings. However in Germany infringement and revocation proceedings have historically been dealt with by different courts (a process called bifurcation).

The current proposals²⁵ provide that where a revocation claim is made in the context of on-going infringement proceedings a local or regional division of the Court of First Instance can either (a) hear both the infringement and revocation proceedings together, (b) refer the counterclaim to the central division and either suspend or proceed with the infringement proceedings or (c) with the agreement of both parties refer the entire case (revocation and infringement) to the central division. A free standing revocation action has to be brought before the central division, unless there are already existing infringement proceedings pending in a local or regional division of the Court of First Instance²⁶.

18 The Competitiveness Council is comprised of national government ministers for areas such as industry, technology and research and development.

19 European Council document EUCO 76/12: Conclusions of European Council Meeting 28/29 June 2012, para.3 on page 2.

20 Article 6(1) draft UPC, Council document 16741/11.

21 Article 7(1) draft UPC, Council document 16741/11.

22 Article 58(1) draft UPC, Council document 17317/11.

23 Article 58(5) draft UPC, Council document 17317/11: the review is to take place 5 years after the UPC agreement comes into force.

24 Article 58(3) draft UPC, Council document 17317/11. This provision is very poorly worded.

25 Article 15a(2) draft UPC, Council document 16741/11.

26 Article 15(3) draft UPC, Council document 16741/11.

Numerous commentators have rightly suggested that these arrangements will potentially create a significant amount of uncertainty and material scope for tactical litigation. Many patentees will prefer bifurcated proceedings as many competitors will simply give up once they have been enjoined from selling, rather than then fighting a subsequent invalidity action.

- (ix) The language of the proceedings of the Court of First Instance will be the official language or one of the official languages of the member state hosting the relevant local or regional division but there is scope for the contracting member states to designate one or more of the official languages of the EPO as the language of their proceedings²⁷. The parties may also agree on the use of the language in which the patent was granted as the language to be used by the Court, subject to the approval of the panel of judges hearing the case.
- (x) The territorial effect of decisions of the Courts is extensive: for unitary patents it will cover all Enhanced Cooperation States and for EPC patents it will cover all the countries in which such a patent has taken effect²⁸.
- (xi) Rules of procedure – no detailed rules have been published and again this is a source of major concern as European countries have very different traditions of litigation procedure.
- (xii) The draft agreement also provides for the introduction of the same provisions relating to infringement, indirect infringement and limitations, which are in the draft unitary patent regulation and again all of these will be subject to review by the CJEU.
- (xiii) The UPC makes provision for a mediation and arbitration centre but mediation or arbitration cannot lead to a patent being declared invalid.
- (xiv) Appeals will not have suspensive effect unless they are appeals in relation to a decision relating to the revocation of a patent²⁹. Appeal Court decisions, as in UK, will generally overturn the decision at first instance but there is procedure for a referral back in exceptional cases³⁰.
- (xv) The winner's reasonable and proportionate legal costs and other expenses will be recoverable from the loser unless that would be inequitable³¹.
- (xvi) For financial compensation there is a five year limitation period from the date the claiming party became aware or had grounds to become aware of the facts justifying the proceedings³².

The Current State of Play In Terms of Implementation

In December 2011 the Competitiveness Council met and agreed the terms of a draft of the UPC, based on the still unpublished Council document No. 18239/11. It is understood that agreement was reached on all issues other than the location of the Central Division of the UPC.

At a meeting of the European Council on 28/29 June the location of the Central Division (Paris) was agreed as was the location of two specialist sections of the Central Division: London (chemistry and pharmaceuticals) and Munich (mechanical engineering).

The Council also suggested that articles 6 to 8 of the regulation implementing the unitary patent be deleted. That latter move did not go down well with the European parliament. Its rapporteur³³, Bernard Rapkay, said the proposed deletion was unlawful. The European parliament therefore decided, in early July, not to vote on the package of measures to implement the new regime. The issue is now due to be discussed again between the EP's Legal Affairs Committee and the Parliament's legal service at some point in September 2012.

What Will Happen Next

The point of no return has likely been reached in relation to the unitary patent and the unified patent court. The author's view is that articles 6 - 8 will stay in the unitary patent regulation and that the package, with articles 6 – 8 in, will then be approved by the EP in the next six months. The Council of Ministers will then formally adopt the two regulations in late 2012/early 2013 and they will come into force at a date to be specified (likely a date in 2015/2016).

A diplomatic conference will then take place to sign the Unified Patent Court Agreement possibly in the summer or autumn of 2013. This will then be ratified by national parliaments in the remainder of 2013/2014. Once 9 MS (including the three with the most EU patents in force) have ratified the UPC agreement then it will come into effect after a yet to be defined period, which is expected to be about two years after ratification. Therefore at some point in 2015/2016 the two regulations and the agreement will likely come into effect. The first unitary patent is likely to come into force in 2016.

27 Article 29 draft UPC, Council document 16741/11.

28 Article 16 draft UPC, Council document 16741/11.

29 Article 46(1) draft UPC, Council document 16741/11.

30 Article 47 draft UPC, Council document 16741/11.

31 Article 42 draft UPC, Council document 16741/11.

32 Article 44a draft UPC, Council document 16741/11.

33 The person charged by the European Parliament with overseeing the Unitary Patents initiative.

How Should Business React to the Proposed Changes?

The introduction of a unitary patent and the unified patent court does have the potential to materially reduce the costs of obtaining, maintaining and enforcing patents within Europe but business should remain rightly concerned that the current proposals have gone through at such a pace and with so little time for proper scrutiny and feedback that numerous aspects of them may give rise to serious difficulties in implementation. There are in particular real concerns in relation to:

- how bifurcation will work;
- the extent to which there will be numerous appeals to the CJEU which will add delay and drive up costs;
- the availability of the large number of suitably qualified and experienced judges, which the UPC Agreement envisages;
- what the detailed rules of procedure will look like;
- the extent to which there will be a substantial amount of forum shopping.

Given all these uncertainties, it is clear that the opt out from the UPC's jurisdiction is going to be very important in practice so as to avoid EPC patentees sleep walking into what could become an expensive and unpredictable system.

In the meantime Squire Sanders will be issuing regular updates on the implementation of both the unitary patent and the UPC Agreement.



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