

# Cross-border Reform of the European patent system

To an owner, investor, venture capitalist or shareholder, the commercial attractiveness of an invention does not depend on just its marketability. Inventions are ultimately valuable only if their inventiveness can be protected efficiently and effectively.

Rapid advances in technology and globalisation present greater challenges to business in the form of both competition and counterfeiting. Unless patent systems within Europe can provide a more workable and commercial solution to the problem of providing cross-border protection to inventions, there is a danger that Europe will remain at a competitive disadvantage.

Therefore, reform of the European patent system is essential; it is reassuring that the issue is being actively addressed and important changes to the system are close to implementation.

## Background

A patent is a monopoly right to protect inventions. Historically, the right could be sought and granted only nationally. To protect an invention in more than one country required the expense and uncertainty of filing separate applications with the national patent office in each country where protection was sought. As the European market expanded, this was recognised to be commercially unattractive and led to the idea of a European patent and the development of the European Patent Convention.

Under the convention, member states delegate to a central office – the European Patent Office (EPO) in Munich – the power to examine and approve patent applications. The EPO carries out searches and examines an application to ensure that it meets the requirements of the convention and for the grant of a European patent, and deals with any objections raised against the application. If the requirements are satisfied the EPO informs the member states in which the patent is to be registered. The approved application is then issued and is treated by each designated member state as a national patent.

So far, so good. However, the European patent is

something of a misnomer because, when granted, it becomes a bundle of nationally enforceable patents in those member states that have signed up to the European Patent Convention (31 at the time of writing) – and therein lies the rub. While the application process has been streamlined, enforcement of the European patent can be very expensive for a patentee.

Enforcement is dealt with under the national laws of each member state and through the national courts. However, just as a patentee will be looking to operate across borders, so will a patent infringer. Enforcing a European patent in several member states against one infringer requires the patentee to bring parallel patent infringement actions against that infringer in each member state where the patent is registered.

This reliance upon national laws and the national courts of each jurisdiction increases, by its nature, the costs to a patentee, which must hire local attorneys, investigators and experts in each country. As if that were not enough, differences in national laws and procedural rules may well result in a patentee losing protection by the patent being revoked or having its claims amended in one country but not in another. These differences may also give rise to different levels of damages if a claim is successful, and there are likely to be different timescales in seeing the cases through to a conclusion. As a result, the European patent system is not delivering to patentees or investors the desired level of legal certainty for their European portfolios, and the certainty it is delivering comes at a high price.

The result has been that patentees have tended to forum shop. Rather than initiate infringement actions in several countries, patentees often choose to bring a claim before the national courts in the country likely to be most favourable to them – that is, a country known to be friendly to patentees or likely to award a higher level of damages or provide wider remedies.

This has exposed the European patent to attack from another source – the European Commission. The European Commission has argued that the unpredictability and

disparity between national courts are prejudicial to the free movement of goods in Europe and counteract progress towards creating an environment that encourages free competition. Not all would agree.

### Community patent

The European Commission's solution to the problems posed by the European patent is to allow an individual or company to obtain a single patent effective across all states within the European Union with a separate specialist court for enforcement and revocation actions – the Community patent.

The idea of an EU-wide patent was first mooted in the 1970s, but the Community Patent Convention, first signed in 1975, was ratified by only nine member states – not enough to make it viable across Europe. In 1989 an attempt to review the convention was made through the Agreement Relating to the Community Patent, which consisted of an amended version of the original convention. This met with little more favour and the agreement was ratified by just 12 member states – again, not enough to bring it into force.

The main problems regarding the implementation of the Community patent system stemmed from the lack of a common language – agreement could not be reached as to the language(s) in which applications or infringement actions should be made.

As a result, the Community Patent Regulation was proposed, under which a patent application should be filed in only one language (English, French or German). The prosecution would then be handled by the EPO and, once granted, the patent would be translated into all languages of the EU member states. In order to be able to enforce the patent, the alleged infringer would need to be provided with a copy of the patent in its own language. The regulation would also establish a central court to deal with questions of validity and enforcement in order to maintain consistency across the whole European Union. This court would be attached to the European Court of Justice and the European Court of First Instance.

Discussions on the regulation reached the stage of political agreement by the European Commission in 2003, but have since been delayed due to difficulties in reaching a consensus on various issues, including:

- the need to find ways around the differences between member states' legal systems;
- the cost of translating granted patents;
- the language to be used during enforcement proceedings; and
- concerns over the competence of the proposed European Patent Court to decide issues of

infringement and validity.

The European Commission has been quoted as saying that the cost of filing a patent in all member states will be reduced by approximately 60 per cent if the Community patent is ratified. It views the Community patent as an essential step towards creating an integrated and fair environment for trade, while highlighting the advantages to smaller companies and inventors who will be able to obtain patent cover across the European Union more effectively and economically.

On January 16 2006 the European Commission launched a public consultation on how future action in patent policy to create an EU-wide system of protection can best take account of stakeholders' needs, with the regulation at its heart. At the time of writing, this consultation process is still ongoing.

However, after many stops and starts, the outlook for the Community patent appears rather bleak. Industry groups across the European Union, as well as the International Chamber of Commerce, are urging the European Commission to abandon its final attempt to resurrect the Community patent and instead concentrate on improving the EPO. Even on a better-the-devil-you-know basis, the European patent system is still commercially preferable to an ill-planned, badly organised and badly run Community patent system.

While the European Commission was wrestling with the implementation of the Community patent, steps were being taken to address the deficiencies in the European patent system in the form of the London Protocol and the European Patent Litigation Agreement (EPLA).

### London Protocol

At present, once a European patent has been granted, the patentee must file a translation of the patent in the language of the member state in which it seeks protection. This translation must be filed at the national patent registry in each country within three months of the grant (with limited exceptions). If no translation is filed, the patent is considered void in that member state. This process means high translation costs for patentees.

The idea behind the London Protocol was to limit the official languages for filing patent applications to English, French and German, rather than allowing applications in any of the approximately 20 languages of the European Union. This is in line with the current practice of the EPO and would reduce the costs of patent filing considerably. Countries which do not have English, French or German as an official language would have to issue patents in the local language and then translate them into one of these three languages. A patentee would

need to translate the patent into the official language of an infringer in order to bring an action against it.

The Union of Industrial and Employers' Confederations of Europe, the Business Software Alliance and the International Chamber of Commerce have all urged the European Commission to pursue the London Protocol to help address the problem of high costs (which is also a problem associated with the Community Patent Regulation). However, ratification problems mean that the London Protocol has effectively been blocked and the issue of translation costs remains unresolved.

### European Patent Litigation Agreement

The EPO set up a working party on litigation to address the litigation and enforcement problems in the existing European patent system. The aim of the working party was the submission of an optional agreement on an integrated judicial system for European patent litigation and settlement.

The EPLA was first proposed in 1999. As well as attempting to create a single legal system for the enforcement of a European patent in all member states of the EPO, it also provided for the EPO to deliver non-binding opinions to the national courts on infringement actions. The current draft creates a new organisation, the European Patent Judiciary, to supervise and deal with infringement and revocation actions for European patents. The EPLA would apply immediately to existing patents in states that sign up to it.

Under the draft EPLA, infringement and revocation actions would be dealt with by a two-tier European Patent Court, comprised of a court of first instance and a court of appeal. The court would be presided over by an international panel of between three and five judges, having between them both legal and technical qualifications, and would deal with cases according to uniform rules of procedure. The languages used would be English, French and German (as is the case in the EPO at present). The substantive patent law contained in the EPLA is closely allied with the corresponding provisions of the 1989 Community Patent Agreement, and national courts would still retain the right to order provisional or protective measures and enforce decisions of the European Patent Court.

The industry-based driving force behind the EPLA comes from the pro-software patent group as a way of ensuring that their software or potential software patents are fully enforceable across Europe. The EPO is fully supportive of the EPLA, and some national governments

and patent registries have voiced their support. At the end of 2005 24 patent judges from 10 EU member states agreed to lobby the European Commission and national governments to promote the EPLA.

The EPLA is a freestanding measure that has merit whether or not the Community Patent Regulation is eventually pushed through. The appeal of the EPLA is not hard to see. It would reduce costs and eliminate tricky forum choices for patentees. It would also provide a pan-European decision and injunction process within a known timeframe. In short, it would address the cost and uncertainty concerns which currently discourage some patentees from asserting the rights that they have fought hard and invested heavily to obtain.

Ironically, the EPLA now faces opposition from the European Commission, which has intimated that EU member states are not competent to ratify the EPLA (at least in its current form), as to do so would be a breach of those member states' obligations under EU law. The commission's stance seems unhelpful and threatens to undermine a workable solution to the pan-European patent problem that would promote the commission's objectives and improve the competitiveness of the EU economy. Therefore, some political and diplomatic work still needs to be done before the EPLA can be implemented. However, the overall signs are encouraging – not least as there have recently been indications that the European Commission is softening its position and is considering allowing the EPLA as a temporary standalone solution or as an option to run parallel with the Community Patent Regulation.

### Conclusion

Within Europe, there is consensus that patentees need a cheaper, more reliable patent system for the protection of their inventions to improve competitiveness with the United States, Japan and China, and to encourage companies to invest their time and money in development and commerce in Europe in order to help trade and improve consumer choice. There is also now a broad recognition that progress towards this goal is best made by retention of the European patent system under the amended European Patent Convention and the voluntary adoption of the EPLA. Although it may take some further industry lobbying to achieve implementation of the EPLA, the future for the patent as a viable means of securing and protecting value in the EU market is now looking healthier than it has for some time.

*Alison provides specialist IP advice and expertise in both litigation and commercial matters. This includes advising on: the creation, protection and exploitation of IP rights, including trade secrets, confidentiality issues, technology transfer agreements and licensing; the enforcement and defence of IP rights, including the conduct of litigation and arbitration proceedings; and IP aspects of joint ventures, co-ownership and transactions. Alison has an engineering background and has particular experience in the semiconductor, oil and gas, hi-tech and telecoms engineering industries.*

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