

International

A unitary patent: not if, but when

A unitary system providing patent protection throughout all EU member states has been the dream of many in the IP world for more than 50 years. Today, after many false starts and numerous changes, this goal appears to be within touching distance. Will it be realised, or is it a case of too little, too late? This chapter looks at past efforts to predict the consequences of change and at the implications that the arrival of a truly unified system would have on established systems and procedures.

Background

The roots of the European patent initiative can be traced back to the spirit of cooperation following the Second World War. In 1947 the *Institut International des Brevets* (IIB) was founded in The Hague with the objective of centralising the ever-growing burden of patent documentation. The IIB was later absorbed into the European Patent Office (EPO) upon its foundation in 1977. Today, the EPO has 38 members and grants around 60,000 European patents annually. It is effectively a unitary patent granting authority and, despite the odd complaint, most users are content with its operation.

Nevertheless, despite their title, European patents cease to have any unitary character as of the moment of grant. Thereafter, they must be validated in each member state where protection is desired. This involves the filing of translations and the appointment of a local agent. Renewal fees must be paid in each state and administrative procedures must be carried out locally, all at significant extra expense. Out of economic necessity, patents are validated in only a handful of countries, thus seriously undermining the principle of a single market.

Most importantly, for parties seeking to enforce or revoke these patents, any court action must be carried out under national law. The differences in approach between national courts can lead to inconsistent judgments and forum shopping. The cost of litigation across multiple jurisdictions has long been cited as a major drawback.

Recent progress on the so-called ‘unitary patent’ has all but resolved the problems of unitary title. In 2008 the London Agreement came into force, simplifying the translation requirements for those countries that chose to participate. On June 27 2011 the EU Competitiveness Council agreed on two key regulations that resolve the outstanding administrative and translation issues for 25 out of the 27 EU member states. Spain and Italy chose not to participate, and instead lodged a formal complaint with the European Court of Justice (ECJ) claiming that their industry would be prejudiced by the actions of the signatory states. Nevertheless, these regulations can and will come into force only once there is resolution of the last outstanding issue – a litigation system for the enforcement of the resulting unitary patent.

Current standing

At present, the expectation is that the enforcement system will materialise in the form of the Unified Patent Court, set up by some or all of the 25 signatory states. The details have not yet been finalised, but it will likely combine a mixture of centralised and local courts, with additional involvement of technical judges, likely taken from the EPO Boards of Appeal.

Agreements have been reached in the past that have never seen the light of day. The Community Patent Convention was signed in 1975, but is unlikely ever to enter into force. The London Agreement took eight years to come into force and has still been ratified by only 16 states. Will the Unified Patent Court be any different? EU Commissioner Michel Barnier and Hungarian Minister of State Zoltán Cséfalvay, chairman of the Competitiveness Council, certainly think so, according to a joint statement issued on June 27 2011: “With the commitment of the Polish presidency to work hard together with the delegations, the European Parliament and the Commission, a final political agreement can be reached on the patent reform by the end of 2011.”

Given these high expectations, it may no longer be politically possible to turn back. The Polish presidency is certainly doing all it can to keep up the momentum. Nevertheless, close as we may be to a solution, past experience shows that predicting the consequences remains a risky exercise.

Past predictions

To date, a driving force for progress has been the frequent predictions made regarding the anticipated benefits of reform. If accuracy had been a prerequisite, it is unlikely that the EPO would ever have got off the ground. On the basis of a theoretical maximum of 30,000 European patent applications a year, seven countries committed to join; this limit was surpassed within five years. European industry was clearly giving a solid thumbs-up to the principle of a centralised system. Not only was this enthusiasm evidenced in the filing figures, it was also tangible for EU member states. For example, the Irish Patent Office saw revenues almost double when it joined the EPO in 1992, and by 2009 it was collecting €10 million in renewal fees alone (of which around 50% is returned to the EPO). The register of patent agents counted 31 members in 1998 and 64 in 2008. In 2004 the Irish Commercial Court was established as a necessary venue for high-value patent litigation and Ireland is listed as a location of choice for IP-dependent companies.

It is therefore unsurprising that not a single EU member state has remained outside the EPO system, which presently receives over 200,000 European patent applications annually. The question remains whether adoption would have been quicker had member states fully appreciated the benefits.

A factor in the EPO's success seems to have been its 'open' format. Not only was membership optional, but also it was not bound by territorial limitations. Switzerland was a founding member and was shortly followed by Austria, Liechtenstein and Sweden – all non-EU members at the time. Turkey was a member of the IIB and joined the EPO in 2000, taking European patent protection up to its borders with Syria and Iraq. From 2002, the former Eastern Bloc countries joined, and a European patent application now gives provisional protection covering a market of more than 500 million people.

Ironically, this freedom to opt in or opt out has also delayed change. In the 1960s progress was interrupted due to disagreement over whether non-EU member states could participate. In March 2011 some believed that the initiative was dead when the ECJ pronounced the proposed European and Community Patents Court

incompatible with the EU Treaty due to the inclusion of non-EU member states. Spain and Italy are now contesting the opt-out option.

The arrival of the London Agreement gave an opportunity to review the accuracy of earlier predictions on the potential savings due to the (partial) abolition of translation requirements. According to the EPO annual report in 2003: "Patent proprietors have a major interest in implementation of the London Agreement, as it would entail a 50% cut in the translation costs for a typical European patent valid in eight contracting states."

A 2008 study suggested that translation cost savings of €3,600 per patent and total savings of about €220 million could lead to an increase in patent filings of between 8% to 12%. However, such a rise in filings is hard to perceive from the actual data. It is probably too early to tell where the predicted benefits have gone, but patent attorneys have already seen their bottom lines plunge. At present, a zero-translation-cost option covers Germany, the United Kingdom, France, Luxembourg, Ireland and Switzerland. The latter three countries could have been expected to benefit at the expense of countries that still require translations, yet neither Swiss nor Irish Patent Office statistics show a clear upsurge in validations over the past three years.

Based on the reliability of past predictions, our ability to foresee the implications of a true unitary patent would still appear limited. This is especially the case because economic factors such as the level of renewal fees have not yet been determined. Balanced against the cost question will be industry acceptance of the Unified Patent Court.

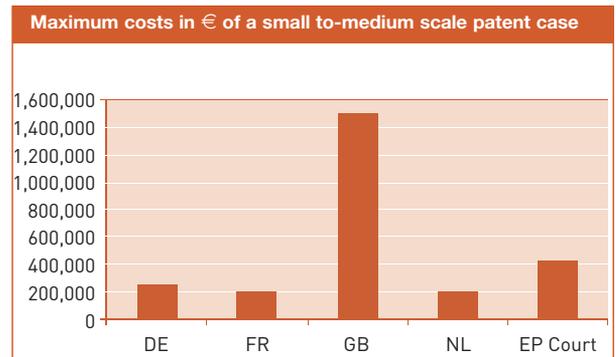
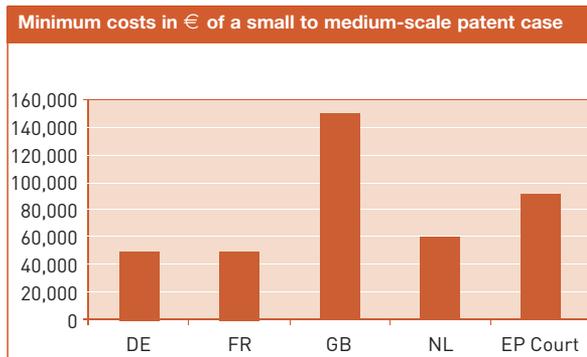
Looking forward

Turning to the immediate future, the European Commission has promised that the final issues will be resolved by the end of 2011 and is aiming for the first unitary patents to be granted in 2013. This will apply directly to pending European patent applications and, on current form, may mean 60,000 unitary patents within the first year.

Under the agreed draft regulations, applicants may choose for their European patent application to be granted either as a new unitary patent or as a bundle of national patents (as is presently the case). For countries beyond the EU borders and for Spain and Italy, they will be able to choose only national patents. The consequences of this choice are outlined in the table below based on protection for all 25 signatory states.

Before agreeing on the draft regulations, the European Commission prepared a 50-page impact

| | Unitary patent | European (25) bundle patent |
|---|---|--|
| Action to be taken | File a translation of the application into English (for patents granted in French or German) or another EU language | File translations according to national requirements – currently German, Dutch, Bulgarian, Greek, Czech, Estonian, English, Polish, Portuguese, Romanian and Slovakian |
| Timeframe | Within one month of grant | Within three months of grant |
| Estimated cost of translation | Less than €1,000 | €28,000 |
| Renewal fees (estimate for sixth year) | Single fee of around €1,600, roughly equivalent to four national fees | 25 separate actions at a cost of €8,500 plus agency fees |
| Registration of licence or assignment | Single action plus fee | Individual registration per country with an estimated cost more than €12,500 |



assessment of the likely costs and benefits. The results could be described only as unanimously favourable for patent owners at the expense of a further reduction in demand for patent attorney and translation services. As with the London Agreement, it may take time before these savings are converted into increased filings.

As mentioned above, all this is subject to agreement on the Unified Patent Court. Here too, impact assessments have been performed in the past comparing the cost and efficacy of litigation across European member states. In 2006 the EPO presented the figures above for a first instance patent case, showing that a unified court would always cost less than two separate national proceedings.

In addition to the obvious cost benefits, the impact assessments have consistently underlined the additional benefits of unitary protection across all member states:

- a single consistent result;
- reduced risk of delays; and
- less exposure to opportunistic forum shopping.

Here, the only listed downside is a possible reduction in revenue for patent lawyers. They, like

patent attorneys, will have to adapt to survive in a more competitive marketplace. Those that embrace the change and work for its acceptance by industry will likely become party to its success. A quality patent at a reduced price must eventually lead to the increased filings predicted previously.

Strategic options

Within the confines of the new procedures, various strategic alternatives will remain available for the IP player.

EPO opposition versus EU litigation

Under the existing system, a centrally filed opposition within nine months of grant has been the only opportunity for third parties to attack a European patent in a single procedure for all 38 member states. The Unified Patent Court may remove the urgency to oppose, since centralised revocation will be available for the 25 signatory states throughout the life of the patent.

Around 3,000 oppositions are filed annually, compared to 2,000 patent court actions across Europe. This balance will be sensitive to the perceived merits of

these procedures. Oppositions are mainly conducted by patent attorneys rather than lawyers and are invariably cheaper than corresponding court actions. However, the EPO is considered less well adapted to dealing with non-written disclosures and oral evidence. It also has a significant backlog. A stay of proceedings by the Unified Patent Court is envisaged in case of a pending EPO opposition, but it is unlikely that judges will tolerate delays. The EPO will need to adapt if this procedure is to remain relevant as an alternative or a precursor to full litigation.

EU versus national litigation

For proprietors of unitary patents, the central revocation procedure also represents a threat. For strategic reasons, some may prefer not to put all their eggs in one basket and may choose to file national patents. Unexamined national patents and utility models giving broad coverage from an early date may also have a role to play. It is presently envisaged that European bundle patents will fall under the exclusive jurisdiction of the Unified Patent Court, but this is unlikely to apply to national patents. They may be enforced locally without necessarily putting other rights in jeopardy. At present, 30% to 40% of patent actions in Europe are based on national patents, and this figure will be a key indicator of acceptance for the Unified Patent Court. During an initial five-year period, patent applicants and proprietors will also still be able to opt out from the exclusive jurisdiction of the Unified Patent Court.

Forum shopping

Although the aim of the European patent litigation system is to have a single unitary system, the presence of a central court and local divisions must inevitably lead to certain differences. While users of the system may seek to exploit and expand on such differences, it is clearly the intention that they should be kept to a

minimum. The local divisions will have judges appointed from a central pool and the single appeal court will further ensure uniformity with referrals to the ECJ.

EU versus international litigation

Patent harmonisation at both substantive and procedural levels means that decisions in one jurisdiction will become more relevant to those taken elsewhere. The adoption of 'first to file' in the United States will further influence this trend.

Many countries already look to the European patent for guidance. A Unified Patent Court decision would therefore be influential both in the remaining EPO states and far beyond. Strategic talks are already established for recognition of European patents in Morocco and, given recent events, the whole of North Africa and the Mediterranean basin could be party to the European patent by the time that the Unified Patent Court takes its first decision. Radical change in Europe may therefore affect the global distribution of patent litigation. If the system succeeds, Europe will become a venue of choice for IP disputes.

Comment

Despite the inaccuracies of past predictions, the solution is close enough now for stakeholders to start to see certain benefits already. Deadlock at this point is politically not an option. The cost reductions associated with the unitary patent will make it attractive and, if the Unified Patent Court delivers, increased filings in Europe are inevitable. The new order may reduce revenues for IP lawyers and patent attorneys, but those who embrace change can likely benefit from the future status of Europe as an IP venue of choice. Most importantly, a patent granted and enforced in Europe will be not just a community patent, but also a global patent.



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