

SYSTEM FAILURE

The Advocates General of the European Court of Justice have argued that more work needs to be done before a single European patents court replaces national jurisdiction in the EU. More than 20 years after it was mooted, a unified patent litigation system is still being debated.

MARK MCATEER

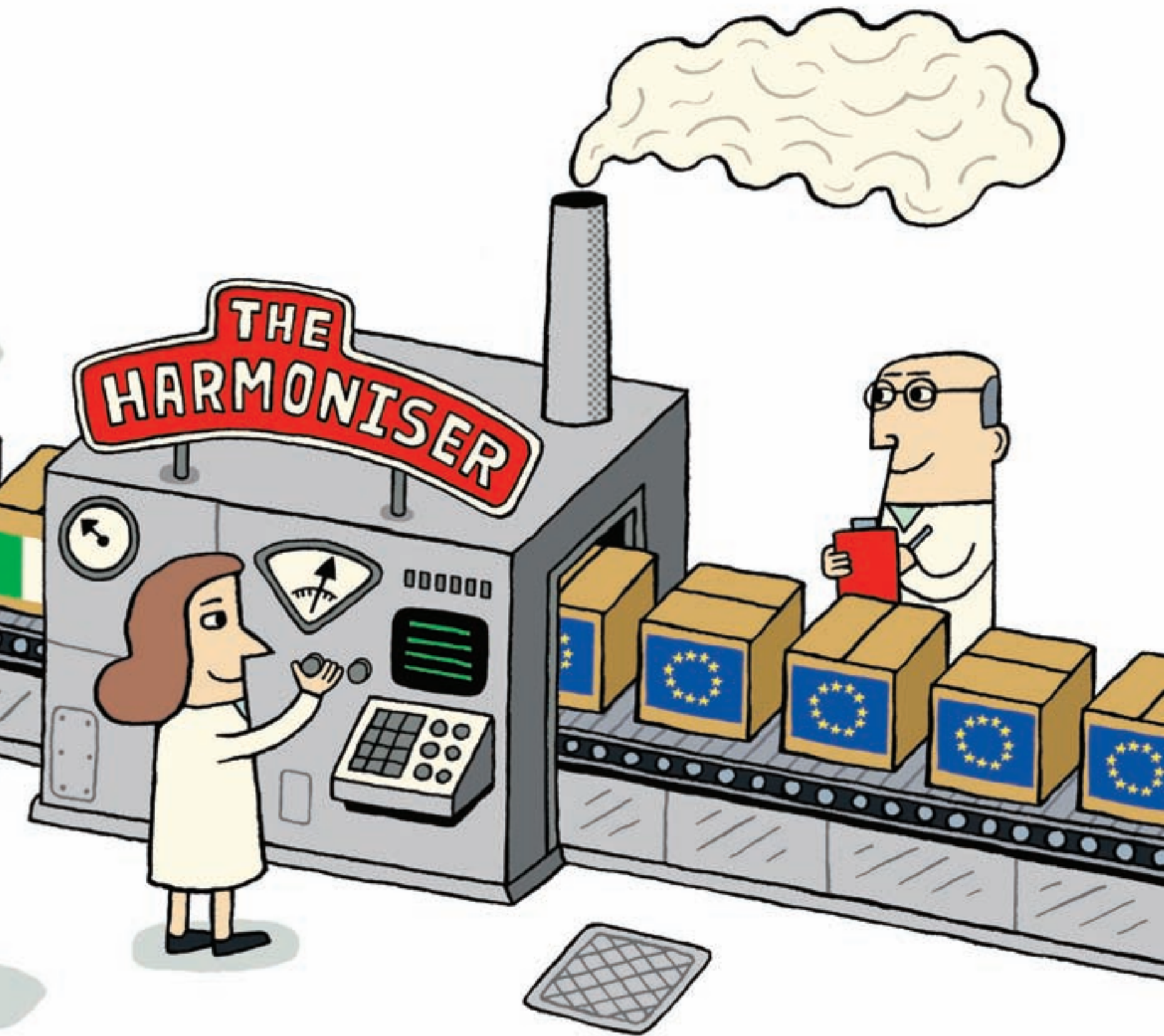
If you thought patent lawyers were mild-mannered boffins, think again. You could almost hear the collective wailing and gnashing of teeth throughout the EU this summer when a leaked opinion appeared to shatter any hope of a unified patent litigation system being introduced in Europe.

An opinion from Juliane Kokott on behalf of all the Advocates General (AG) of the Court of Justice of the European Union (CJEU) first appeared in August, on, of all places, an intellectual property (IP) law blog. It was printed in French only and was part of a closed session never intended for public dissemination, but the document soon passed round the IP community. Lawyers throughout Europe discovered that current proposals for a

unified patent litigation system (UPLS) and a European and EU Patents Court (EEUPC), were considered incompatible with EU law.

The opinion of the AG is a preliminary ruling and not binding on the final decision of the CJEU. In the summer of 2009 the European Council asked the CJEU for its view on the compatibility of the proposals with the EU treaties. Some IP specialists have described the opinion as a 'hammer blow' for plans that have been repeatedly kicked into the long grass for decades. It's more than 40 years since the idea of a single European patent was first mooted. Others say they expect the CJEU to take a far more pragmatic view when it delivers its official verdict on the proposals, expected by the end of the year. Whatever the







‘The fate of the single court and single patent remains in the balance, but the scales look to be tipping badly against them.’

Edward Nodder,
Bristows

► outcome, the decision of the CJEU will have a profound effect on patent litigators at firms throughout the EU.

PROBLEM PATENTS

Litigating a patent in Europe can be expensive and time consuming. Unlike in the US there is no central court that can deliver a judgment that is binding on all member states. Research shows that once a patent litigation case in Europe goes to trial in three different jurisdictions, it often becomes more expensive than America. If this multiple action is taken away, the chances are that more companies will be willing to defend their patents in Europe.

A February 2009 report requested by the European Commission estimates that, in big commercial patent cases, at first instance, party costs amount to €200,000 in both France and the Netherlands, €250,000 in Germany, and €1.5m in the UK. A single patent case in the US is estimated to range between \$1m and \$3m (€715,000 to €2.1m). If the matter

goes to appeal, the costs grow significantly higher. The European report also suggests that, by 2013, users of a unified European patent system would save €148m to €289m per year, compared to the costs of piecemeal litigation.

‘The cost of bringing patent infringement proceedings in the US vastly exceeds the costs in any one European state, yet there are many more patent infringement cases in the US than in Europe – why is this? Because in the US one decision is effective across the whole US market,’ says David Knight, a partner in Field Fisher Waterhouse’s IP and technology dispute resolution group.

Opinion on a single patent court has raged for a long time in Europe’s IP community. In a *Legal Business* article in 2003, responding to a debate over the merits of German patent courts versus their UK counterparts (‘Not so patently obvious?’ *LB133*, page 74), Simon Thorley QC of 3 New Square said that the answer to ironing out forum shopping in Europe for patent litigation lay in ‘striving to obtain a

pan-European patents court at the earliest possible opportunity’. He added: ‘A single European patents court with chambers in different countries, staffed by a body of judges, legally and/or technically trained, would be welcomed.’

Thorley did warn, however, that although the European Council had reached an agreement, the need for political and legal compromises meant that the new system would be unlikely to be established until 2010, and progress would be ‘too slow and too late to meet the needs of industry’. As it turns out, the estimated timeframe was less conservative than he may have thought at the time.

The AG’s latest opinion could once more put the issue of a unified patent system in stasis. While the opinion said the court is not fundamentally against the creation of a UPLS, it raised key concerns that the proposals do not give sufficient guarantees that a new central patents court will observe the supremacy of EU law. It adds that there appears to be little that the EU institutions could do should a single patents court’s decisions be incompatible with EU law. It also raises a recurring point and a highly political issue: that the chosen languages of the proposed system – English, French and German – affect the rights of those parties from member states using other languages.

It leaves IP lawyers torn between resignation that stumbling blocks continue to hinder the progress of an initiative that has been rumbling on for over a decade and disappointment that seemingly surmountable issues are getting in the way of a more pragmatic approach.

‘The opinion, although obviously not binding, is disappointing in that three of

TIMELINE EUROPEAN PATENTS

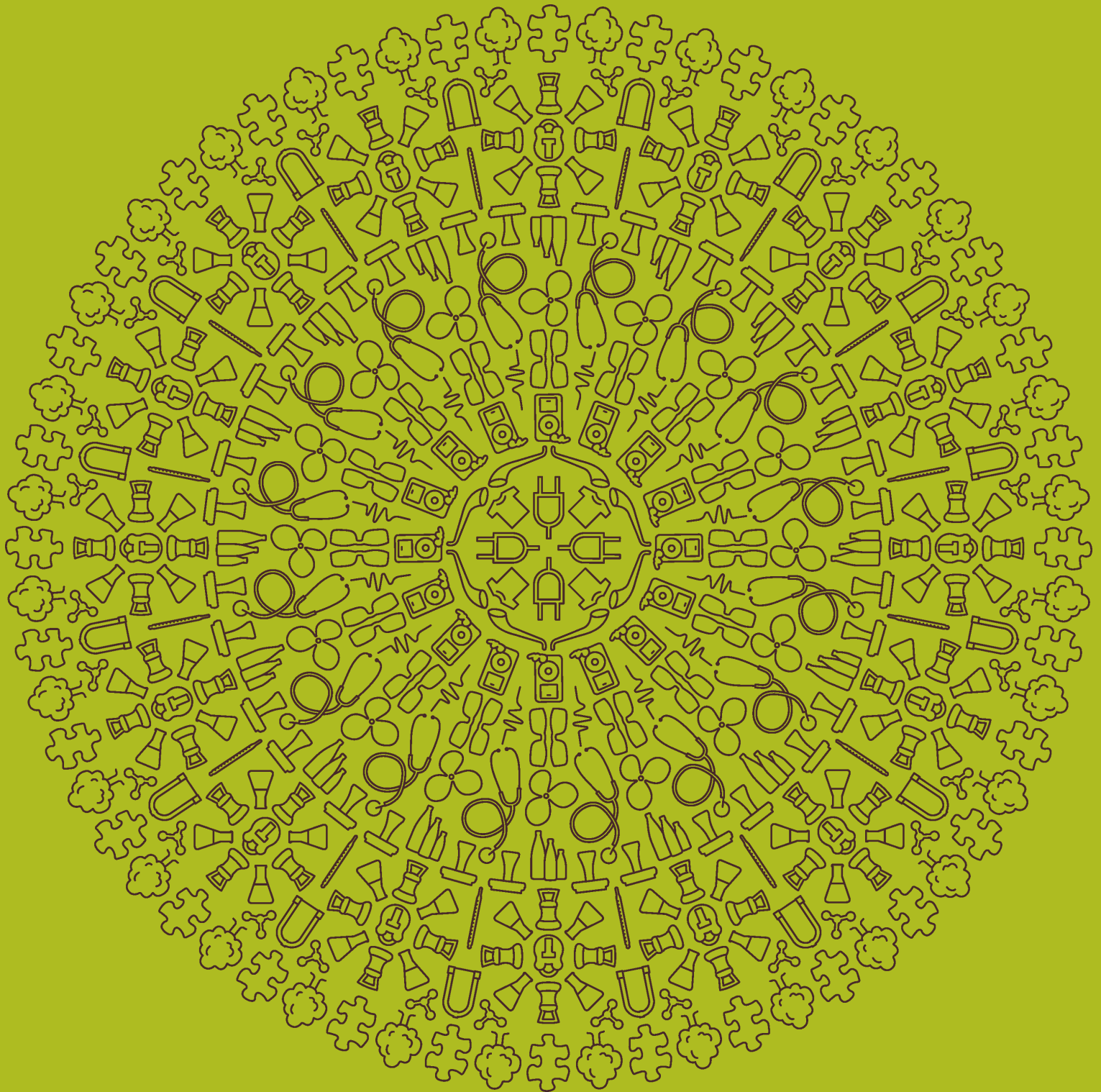
A HARMONISED PATENTS REGIME HAS BEEN A LONG-TERM AMBITION FOR MANY IN EUROPE BUT HAS REGULARLY MET OBSTACLES ALONG THE WAY. HERE IS A SHORT HISTORY OF THE MANY TWISTS AND TURNS.

● **1949**
French senator Henri Longchambon presents a plan to the Council of Europe for a European Patent Office (EPO), which is rejected by a committee of patent experts.

● **1950**
Scandinavian countries plan to harmonise their patent laws, where a Scandinavian patent application could lead to a bundle of national patents granted by a national patent office. The concept never gets off the ground.

● **1959**
European Economic Community (EEC) member states begin work on drafting a patent law for the common market. However, a dispute over the involvement of the UK, which failed to gain EEC membership, sees efforts come to a halt in 1965.

● **1969**
France proposes resuming negotiations on European patent law before the Council of the EU, suggesting two separate conventions. One would set up a European patent grant procedure covering as many European countries as possible with an EPO granting



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A CASE IN POINT

There's considerable irony in the fact that one recent case that best illustrates how convoluted, expensive and messy it can be to protect a patent in Europe involves the euro, a conspicuous symbol of European cohesion. In 2005 Document Security Systems (DSS), based in Rochester, New York, claimed that its European patent in a method that prevents documents from being accurately copied by scanner devices was infringed by the European Central Bank (ECB) in its production of euro banknotes.

DSS then made a cardinal error, attempting to sue the ECB for patent infringement centrally

before the European Court of First Instance, which told the company it had no jurisdiction over the matter. In Europe patent infringement actions, even for a patent registered with the European Patent Office (EPO), take place in the local courts of any number of jurisdictions where the alleged infringement occurred.

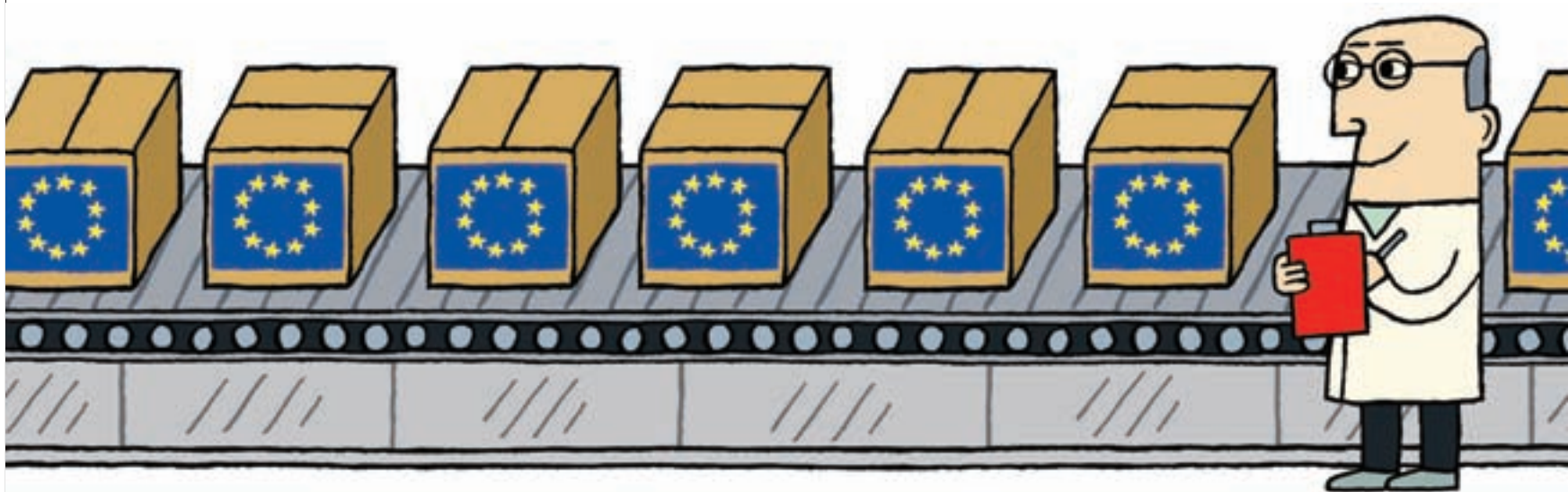
Patent infringement lawsuits usually involve the defendant bringing a counterclaim to have the patent in dispute declared invalid and revoked, rendering the patent infringement action null and void. The ECB did just that in this case, by bringing

revocation proceedings in Austria, Belgium, France, Germany, Italy, Luxembourg, The Netherlands and the UK.

The UK court was first to find the patent invalid. A day later, the German court disagreed, saying the patent was legitimate. The French court agreed with the UK when it gave its judgment the following year. Three months later, the Dutch court gave the contrary view. Three years after the action was first launched, and at considerable cost, the result was a score draw.

With other verdicts still to be reached, DSS appealed the

UK court's decision to declare its patent invalid. In upholding the judgment of the previous court, the outspoken Jacob LJ took a moment to express his frustration with a system that required multiple patent cases in many jurisdictions, all having different procedures, in which the same European patent can be judged valid in one court and not in another. '[This case] illustrates yet again the need for a one-stop patent shop (with a ground-floor department for first instance and a first-floor department for second instance) for those who have Europe-wide businesses,' he said.



TIMELINE EUROPEAN PATENTS (CONTINUED)

a bundle of patents. The second convention would create a European patent for the common market, confined to the member states of the EC.

● **1973**
The European Patent Convention (EPC) is signed on 5 October 1973. The EPC does not create a single European patent, but rather a bundle of nationally enforceable, nationally revocable patents across the countries that have signed up to the EPC.

● **1975**
Member states sign a convention concerning the European patent for the common market. This convention proposes a unitary community patent, as well as for nullity boards to be created within the EPO. Decisions by these boards could be challenged by appealing

to the European Court of Justice (ECJ). Not all of the signatory states ratified the convention, which subsequently collapses.

● **1985**
A second diplomatic conference on the community patent is held.

● **1989**
A third diplomatic conference on the community patent is held. The convention was amended by an agreement concluded in Luxembourg in December 1989 that included, among other things, a Protocol on the Settlement of Litigation concerning the

▶ the objections could be dealt with by the new court in its procedures,' says William Lister, head of the IP litigation team at Pannone in Manchester. 'The language issue is a matter of practicality – there has to be a limit to the number of languages used by the court.'

'In short, the fate of the single court and single patent remains in the balance, but at this point the scales look to be tipping badly against them,' adds Edward Nodder, head of the IP department at Bristows. He points out that respected senior UK patent judge Jacob LJ has predicted recently, in a speech to the Chartered Institute of Patent Agents Congress, that he doesn't expect a fully operational single court until 2025 at the earliest.

Gareth Morgan, a partner in the IP team at DLA Piper, says the opinion 'is not entirely unexpected' because the proposed UPLS also involves non-EU countries that signed up to the European Patent Convention (EPC) years ago, such as Switzerland. 'A system that relies on EU and non-EU countries coming together to create an international court that needs to take into consideration jurisprudence from over 30 different EPC jurisdictions is a real constitutional challenge,' he says. 'Europe has an imperfect patent system in that it is unified only at the prosecution stage and non-EU countries have a say in the running of the European Patent Office (EPO). The EPO is accountable only to the contracting states within the EPC and, as such, is independent of the EU.'

For Bruno Vandermeulen, a Brussels-based partner in Bird & Bird's IP team, the outcome is rather sad. He agrees that most of the concerns raised by the AG could be dealt with easily and is 'just a case of carefully rewording the agreement', but the fact that old arguments have surfaced again is disappointing. ▶

'The Advocates General don't seem to think there's any complete block on the creation of one court.'

Tim Powell,
Powell Gilbert

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▶ However, he and most lawyers interviewed warn against overreacting to the opinion and assuming the proposals are dead in the water. After all, the opinion is not binding on the CJEU and the problems highlighted are not wholly insurmountable. 'The good news for people who are supporters of the common court is that the AG don't seem to think there's any complete block on the creation of one court and it says this in paragraph 76,' cautions Tim Powell, patent litigator and name partner at Powell Gilbert. 'There were some member states that felt it was fundamentally in opposition to the EU treaties. The fact that the CJEU is focusing in on the primacy of EU law in this context is also no surprise.'



'The EU does not want an important court system to be outside of its remit and the pre-eminence of EU law.'

David Knight,
Field Fisher Waterhouse

CARBON COPY

The most important question is whether the CJEU will follow suit and raise the same concerns in its final decision expected at the end of this year. In a forthright statement sent out by the Chartered Institute of Patent Attorneys (CIPA) in August, council member Vicki Salmon said: 'The CJEU will have to take a pragmatic interpretation of the AG's opinion if we are to see any possibility of a single European patent and a common European patents court system emerging from this process.'

A fine suggestion in theory but as anyone familiar with judicial review knows, pragmatism is rarely a primary concern in any court, particularly the CJEU.

'I would expect the Court of Justice to follow this opinion,' says Morgan. 'This is because the court's role is to advise on the legal position, and it would be unusual if the court were to permit calls for "pragmatism" to trump fundamental legal issues of compliance with treaties and the supremacy of EU law.'

Isabel Davies, head of the technology, media and telecoms group at CMS Cameron McKenna, argues that the court 'will be aware of the fact that a negative decision may well spell the end to the hopes of creating a centralised system of patent litigation. They may, therefore, be keen to adopt a pragmatic approach'.

For proponents of a unified approach the danger is that the CJEU is not for turning, primarily because some member states are fundamentally opposed to the proposals. The AG opinion makes reference to issues raised by Spain, Ireland, Luxembourg, Greece, Cyprus, Italy and Lithuania. These are potentially all countries that may fear that their own practitioners would lose out in a centralised system to member states with more established IP regimes.

'I think this might be one of the rare cases that the CJEU goes its own way given that the campaign against the unified court, led by Spain, has the appearance of being politically motivated by national and domestic self-interest,' Pannone's

Lister says. 'That's the exact self-interest the patent system was intended to avoid.'

Raising the matter of which languages to use is an obvious way of blocking progress. 'I think the language issue is an excuse for many member states,' says Vandermeulen. 'It's an excuse for not really agreeing on a centralised court because it involves giving up the power and jurisdiction of national courts. Certain practitioners think that their system is the best and should not be handed over to a system that inevitably will be less predictable and have more uncertainty.'

Another major worry is that even if the CJEU accepts the idea of a UPLS in principle, it would place so many caveats on the implementation of the system as to make it unworkable. The main suggestion is that the CJEU should have more control over the EEUPC and also over the procedure for granting patents by the EPO. This shift in control could, some lawyers argue, negate the benefits to be gained from setting up

TIMELINE EUROPEAN PATENTS (CONTINUED)

Infringement and Validity of Community Patents. Again, the convention fails because, although 12 states signed the agreement, only seven ratify it.

● **2000**
The European Commission issues a proposal for a European Council Regulation on the community patent. In 2003 the Commission presents the proposal for a European Council Decision conferring jurisdiction on the ECJ in disputes relating to the community patent,

as well as another proposal for a European Council Decision establishing the Community Patent Court. The European Council fails to adopt the proposal by 2004.

● **2003**
States signed up to the EPC had formed their own working party on litigation in 1999 and now propose a draft agreement on the establishment of a European Patent Litigation Agreement (EPLA), and a draft statute of the European Patent Court, taking it outside the

purview of the EU. The idea is ultimately dropped following an unofficial opinion from the European Parliament that the EPLA would breach the EU Treaty. Plans for the EPLA are declared dead in 2007. ▶

a UPLS. The inexperience of the CJEU in patent law, coupled with the excessive time taken to get a response to a referred question, may well be sufficient to discourage those advocating the system in the first place.

If the system is implemented properly through a specialist chamber of the CJEU, these problems could be avoided. DLA's Morgan argues that the EPO should become an EU institution, with the EPC becoming a Commission Directive. Non-EU countries that are signed up to the existing EPC can base their law on the new Directive and empower the EPO to grant patents for their territories as well. For litigation, a specialist division of the CJEU could be set up to hear IP cases, as Morgan says, 'having non-IP specialists making pronouncements on EU IP law that affect the marketplace is concerning'.

But litigation could be difficult involving non-EU members of the EPC, which a specialist

chamber of the CJEU could struggle to have jurisdiction over. Field Fisher's Knight sums up the situation: 'Countries outside of the EU would be reluctant to give jurisdiction over patent matters to an EU court, and the EU does not want an important court system to be outside of its remit and the pre-eminence of EU law.'

Besides, supporters of the EEUPC will argue that making it part of the European institutions means that patent litigation in the EU will suffer the same fate as other cases that fall before the European courts. They become expensive, laborious and over-complicated, defeating the point of having a unified system in the first place. While noises are being made about pragmatism, the desire for political consensus could undermine the practical benefits of the proposals.

Michael Edenborough QC of Serle Court suggests a way around the problem. 'Rather than getting the CJEU involved as an



Davies: aware the court has the power

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► appellate court, it might be possible to conclude a new multilateral treaty between interested states to form a litigation venue that sits outside of the EU system instead of forming an EU patents court. The AG's opinion seems to suggest that this would be legal and it would have the advantage that non-EU states, such as Switzerland, could join.'

AT THE CROSSROADS

While opinion is divided over which direction the CJEU should take, lawyers appear to universally agree that a CJEU decision that simply follows the opinion of the AG could leave a UPLS dead in the water. Certain member states may feel it is not worth more rounds of amendments to the proposal and re-submitting them to the CJEU; they may just decide to get together in smaller groups and offer alternatives to an EU-wide function.

'If the CJEU follows the opinion of the AG, then the possibility of a UPLS may well be over,' says Davies. 'The present draft has taken

considerable time, not to mention expense, to prepare and therefore the enthusiasm to expend similar efforts on a further revision may well not exist. Additionally, in such an event, a draft that is satisfactory to the CJEU may no longer satisfy many of those advocating the reforms. In particular, the involvement of the CJEU as an adjudicator in disputes may be unpalatable to some.'

If the CJEU accepts the proposals, the potential changes would be dramatic. However, such changes could take another 20 years to manifest themselves. Ratification may take some time and even then it may be more than ten years before any litigation is actually put before the new court. It could then be another decade before the court has ruled on the most significant issues of patent disputes and for there to be a body of case law to which practitioners can refer.

However, should this system come to light it will inevitably shake up the firms specialising in patent litigation throughout Europe. Although the cost of an individual case may well increase,

there would no longer be the need to litigate in several countries. Lister believes that a UPLS will encourage small and medium enterprises to defend their rights, particularly those in the technology sector that have been discouraged from taking legal action because of the huge cost involved. 'A favourable decision would significantly drive down costs and result in a huge expansion of work for IP litigation teams across Europe,' he says. This means that firms specialising in advising smaller corporates could feature more prominently in patent litigation.

A centralised system could also eradicate local monopolies on litigation before the national courts, something that is part of the reason that certain member states are reluctant to put their full weight behind the proposals. Their genuine fear is that patent litigators and judges from member states with sophisticated, slick and respected IP regimes will dominate any European patents court.

In the short-term Knight believes there's unlikely to be an immediate and significant increase in patent cases in Europe and tougher competition between law firms 'with the same rights of audience and who have, or will claim to have, the same skill sets'.

António Magalhães Cardoso, partner at Vieira de Almeida & Associados in Lisbon, concedes that smaller European states could lose out in a centralised system. 'I think that a positive outcome regarding a European patent court will not affect the most important IP law firms in Europe. They will be natural players in that system. The implementation of such judicial structure would possibly entail a greater damage to firms located in countries other than the UK, Germany, France or the Netherlands, which I imagine will have a secondary role.'

As they currently account for around 90% of patent litigation in the EU, the UK, Germany,



'London firms without Magic Circle rates will prove they can compete with continental lawyers on price and quality.'

Gareth Morgan,
DLA Piper

TIMELINE EUROPEAN PATENTS (CONTINUED)

● 2006

The Commission launches a consultation on the future of patent policy in Europe, focusing on the structure of the European patent model without touching on issues of substantive patent law. The main aim of this exercise is to gain new momentum on patent

matters that will hopefully lead to the adoption of a Community patent.

● 2009

A draft agreement on the European and Community Patents Court is drawn up in an attempt to create a Unified Patent Litigation System for Europe (UPLS). The European Council then asks the ECJ to consider whether the proposed agreement is compatible with EU law.

● 2010

The Advocates General of the ECJ give their opinion on the validity of the UPLS, which is subsequently leaked on the internet. An official ECJ decision is expected by the end of 2010.



France and the Netherlands are widely expected to hold court. However, other factors come into play.

English practitioners will be well placed to compete in the new system. The presence of disclosure and cross-examination in the new single court rules of procedure will certainly be alien to most continental lawyers, but English specialists may well have to take a long hard look at their pricing. 'The price differential between jurisdictions will be ripped up and charge-out rates will become the focus,' Morgan says.

This could have the effect of driving down rates in London, which could then lead to the larger firms discarding patent litigation as a viable practice area. 'Why pay £600 per hour for a partner from a Magic Circle firm to litigate in the court when you could pay a German partner in a specialist firm (for arguably better advice) less than €500 per

hour?,' Morgan adds. 'Those firms in London that have not taken their chargeout rates into Magic Circle territory will have good opportunities to prove they can compete with continental lawyers on both price and quality.'

Nodder argues that UK patent litigators are in a win/win situation, whether a central patent court comes to fruition in Europe or not. 'If the status quo remains, the UK will continue to be a primary market for enforcing patent rights in Europe,' he says. If we move to a single system, the quality of UK litigators – and their experience of the speed and thoroughness with which cases are handled in the UK on both validity and infringement – mean that UK litigators (and especially those with relevant technical backgrounds) remain a favourite choice for companies enforcing their business critical patents in Europe. 'If you have to put all your eggs in one European Court basket, then patentees coming from outside Europe will want to choose the litigation lawyers who are most used to conducting a rapid and thorough examination of the issues, both technical and legal, and covering both validity and infringement simultaneously. In Europe, such lawyers are predominately found in the UK,' Nodder asserts.

In the long term, if costs prove to be much lower, Europe could have as many, if not more, patent infringement cases as in the US. This increase in volume, Knight argues, should more than compensate for the increase in competition. 'However, I have doubts that such a view is shared by less-experienced patent lawyers from quieter patent jurisdictions who may have most to fear from competition,' he says.

It is this fear that has prevented a European patents court from coming to light so far and could end all hope in the coming months. **LB**

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