



House of Commons

European Scrutiny Committee

The Unified Patent Court: help or hindrance?

Sixty-fifth Report of Session 2010–12



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minutes, oral and written evidence*

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European Scrutiny Committee

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- a) to report its opinion on the legal and political importance of each such document and, where it considers appropriate, to report also on the reasons for its opinion and on any matters of principle, policy or law which may be affected;
- b) to make recommendations for the further consideration of any such document pursuant to Standing Order No. 119 (European Committees); and
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1 Introduction

1. The basis of EU action in the field of intellectual property rights and their protection is Article 118 of the TFEU (Treaty on the Functioning of the EU). The Committee has held the draft agreement on the Unified Patent Court (UPC) under scrutiny since it was deposited in Parliament by the Government on 8 September 2011. It is not, however, a formal EU document, but rather a non-EU international agreement to which 25 of the 27 EU Member States intend to be party.

2. In early December the Committee was informally made aware that political agreement on the UPC agreement was going to be reached by ministers in the Council of the EU in early December. We were surprised by this, and concerned at the haste in setting up a court as important as this. The Government had also expressed reservations about it. In her Explanatory Memorandum to Parliament, dated 21 September 2011, the Parliamentary Under-Secretary at the Department for Business, Innovation and Skills (Baroness Wilcox) set out the following commercial concerns about the proposed UPC:

- UK industry opposed separate jurisdictions for validity and infringement actions on a patent case as it could mean that cases were more expensive and could reach inconsistent decisions;
- UK stakeholders had raised concerns that the costs of the UPC might be prohibitively high now that there was no longer a contribution from the EU budget to the setting-up costs of the court;
- there were a number of language issues to be resolved. These included the operational language of the division, the language of proceedings, the language of court documents and the language of judgments. Related to this was the issue of translation and interpretation. Different solutions could apply to each. Some Member States had concerns that their nationals may not be able to use their own language in the UPC, and judgments may not be available in their language. Additionally, UK industry was concerned that complex language requirements would create cost and uncertainty;
- patents are highly technical documents, which can present difficulties for judges if they do not have the experience and expertise to understand the invention. Some European States use technically (non-legally) qualified judges and others, such as the UK, use technical experts to provide the necessary technical knowledge but not to adjudicate. UK industry was concerned that there were currently not enough suitably qualified judges to populate all of the panels of the court of first instance and court of appeal in the local, regional and central divisions of the UPC.

3. In addition, there was vehement opposition from the national and European patent professions. In a letter to the Committee¹ the Chartered Institute of Patent Attorneys said that “inappropriate pressure” was being placed on governments to sign the agreement; and on the substance that it “support[ed] the idea of a Unitary European Patent. But only if it is

¹ European Scrutiny Committee, Forty-eighth Report of Session 2010-12, HC 428-xliii, paras 5.2 to 5.3

an improvement on the present system. What is currently being discussed is not. It would be worse, not better.” This was followed by seven proposed amendments it thought necessary before the agreement would be beneficial for UK companies.

4. Andrew Waugh is a Queen’s Counsel in Three New Square chambers in London, which specialises in intellectual property law. In his letter to the Committee² he said that “the complexity of the proposed court structure, lack of clarity on financing, the expertise of the appointed judges, the dubious assertions that the court will be cost effective and many further problems plague the draft agreement and proposals”. He mentioned that the European Patent Lawyers Association had been campaigning for a long time to secure a unified patent system which was cheaper, more efficient and served the needs of its users. He reported that at its recent Congress on 5 December, the European Patent Lawyers Association’s past president, Dr Jochen Pagenberg, summed up the proposal as follows:

If one wants a really unattractive, inefficient, unpredictable and probably extremely expensive patent court system, then we will get it; one must only give the ECJ a chance to receive as many referrals in patent law as possible.

If one wants to see substantive patent law in Europe to be decided by judges without any solid knowledge and experience in this field, then one must involve the ECJ whenever possible.

And if somebody intended to lay a solid ground for failure of this—at some time very promising—project, then he will probably succeed.³

5. The Committee reported on the agreement twice in December,⁴ asking the Minister to oppose its approval and signature at, respectively, the Competitiveness Council on 5 December and in Warsaw on 22 December. The Minister said that she too was surprised at the speed of the negotiations, but demurred on whether the Government would oppose it. She had previously said that there was little scope for amendment, because the Presidency had been “less inclined to take on board amendments of a technical nature, given that the substance of the Agreement was discussed in Council working groups before the Council conclusions of December 2009”.⁵

6. It transpired that the UK, France and Germany were not able to agree on the location of the Central Division of the UPC on 5 December, so agreement was blocked. A subsequent letter from the Minister confirmed that the Polish Presidency had cancelled the initialing ceremony in Warsaw on 22 December, and that negotiations would continue under the Danish Presidency. Press reports indicated that the reason for the cancellation was solely the dispute over the location of the Central Division, rather than concern over substantive provisions. The European Council summit statement on 20 February 2012 confirmed that

2 European Scrutiny Committee, Fiftieth Report of Session 2010-12, HC 428-xlv, paras 2.11

3 See EPLAW President’s Report 2011, p. 3 (<http://www.eplaw.org/Downloads/President's%20Report.pdf>)

4 HC 428-xliii, chapter 5 and HC 428-xlv, chapter 2

5 HC 428-xliii, para 5.10

the EU intends to reach “a final agreement on the last outstanding issue in the patent package.”⁶

7. The Committee decided to hold an inquiry into the UPC when it became clear that a deal was being rushed through in Brussels to create a court whose advent industry and patent specialists regarded as worsening the current regime for patent protection in Europe; and because the Government appeared to be ready to agree to it. The aim of the inquiry was to assess the validity of the opposition to the UPC, and of the Government’s response, with a view to influencing national policy on the UPC for the better. It was also to provide a platform for those opposed to the UPC to voice their opinions, many of whom felt they had been shut out from the negotiations.

8. The Committee received evidence from the following organisations and individuals: the Chartered Institute of Patent Attorneys, the Confederation of British Industry, the Department for Business, Innovation and Skills, the European Patent Lawyers Association, Henry Carr QC, the International Association for the Protection of Intellectual Property, the Intellectual Property Lawyers’ Association, the IP Federation, The City Remembrancer, Professor Winfried Tilmann and the SME Innovation Alliance. The Committee held three evidence sessions on 25 January, 1 February and 7 March. In the first it took evidence from Henry Carr QC, Chairman of the Intellectual Property Bar Association, Tim Roberts, President of the Chartered Institute of Patent Attorneys, Vicki Salmon, Chairman of the Litigation Committee of the Chartered Institute of Patent Attorneys, and Dr. Christian Gassauer-Fleissner, President of the European Patent Lawyers Association; in the second and third from the Parliamentary Under-Secretary at the Department for Business, Innovation and Skills (Baroness Wilcox), Neil Feinson, Director of International Policy, Intellectual Property Office, Liz Coleman, Divisional Director, Intellectual Property Office, and Nicholas Fernandes, Legal Adviser, Department for Business, Innovation and Skills.

9. Our conclusions are based on the evidence received from the witnesses above, and from an analysis of the consolidated versions of the UPC agreement and unitary patent Regulation provided by the Government on 19 January.⁷ We thank all those who submitted and gave evidence in the course of our inquiry.

2 Background

10. Discussions on a unitary patent within the European Union have continued over several decades. More recently, negotiations on a Regulation for a Community patent stalled in 2004, principally due to disagreement on patent languages and translations. However, following the Commission’s 2007 Communication “Enhancing the Patent System in Europe,” discussions improved, and in June 2011 political agreement was reached on the EU unitary patent Regulation by means of the enhanced cooperation procedures in the TFEU (with Spain and Italy not participating in opposition to the proposed language regime of English, French and German).

⁶ See 2011/0093(COD): <http://www.europarl.europa.eu/oeil/popups/summary.do?id=1192910&t=e&l=en>

⁷ Ev 34, 35

11. In parallel with the negotiations on a Regulation establishing a unitary patent, which the Committee retains under scrutiny, there have been separate discussions aimed at creating a single European patent court.

12. At present, European Patents are granted by the European Patent Office (EPO) in Munich, under procedures laid down in the European Patent Convention of 1973. The proprietor of a patent, the patentee, is granted a basket of rights which can apply throughout Europe. In order to enforce those rights, however, the patentee has to sue in the national courts of different Member States, which is costly and can lead to inconsistent results. For this reason, the theory of a unified patents court has long been thought desirable.

13. In 2009 discussions led to a proposal for a European and Community Patent Court (ECPC), which would have jurisdiction over European patents (EPO) and unitary patents (EU). Following concerns raised by some Member States, however, the Council requested the opinion of the Court of Justice on the compatibility of the envisaged ECPC Agreement with the provisions of the then EC Treaty. That Opinion (1/09) was issued on 8 March 2011. The Court of Justice found that the draft ECPC agreement was incompatible with the EU Treaties for two reasons. Firstly, it would deprive national courts of the power or, as the case may be, obligation, to refer a question of EU law (particularly under the EU unitary patent Regulation) to the Court for a preliminary ruling under Article 267 TFEU—such preliminary rulings were “indispensable to the preservation of the very nature of [EU] law”.⁸ And secondly, if a decision of the ECPC were to be in breach of EU law, it could not be subject to infringement proceedings by the Commission, nor could it give rise to financial liability on behalf of the EU Member States—two essential characteristics of EU law.

14. The draft international agreement on what is now called the UPC, the subject of this inquiry, was revised to take account of the Opinion of the CJEU. The Committee wrote to Baroness Wilcox in June last year, when it noted that the Commission’s non-paper on a unified patent court suggested that, in order to meet the requirements of the Court’s Opinion 1/09, the ECPC should have jurisdiction for EU Member States only, so excluding non-EU Member States which are party to the 1973 European Patent Convention. Pending the deposit of the revised agreement, the Committee asked the Minister for a more in-depth analysis of how a unified patent court would affect the European patent, and how likely it was to meet the requirements of the Court of Justice’s Opinion.

15. The Minister replied on 7 July in the following terms:

The Commission recommends that the unified patent court have exclusive jurisdiction over infringement and validity for both the unitary European Union patent and for (bundle) European patents granted under the EPC. Participation in the proposed agreement would only be open to Member States of the European Union.

EU Member States not taking part in the unitary patent would be free to participate in the court agreement but the court would only have jurisdiction over (bundle) European Patents in respect of those countries.

The operation of European bundle patents in respect of non-EU EPC Contracting States would be unaffected. Disputes relating to (bundle) European patents in such States would still be heard by the relevant national court as is current practice.

This system will still provide significant savings to UK businesses because they would not need to litigate their patents in as many different national courts as they do now.

You also asked how likely it is that the Commission's recommended approach will meet the concerns of the Court of Justice of the European Union (ECJ). In its opinion of 8 March the ECJ (the "Court") objected to conferring jurisdiction on a court created by international agreement which would deprive Member States' courts of their task of implementing Union law or referring questions to the Court of Justice for a preliminary ruling. The Court distinguished this from the Benelux Court of Justice as "a court common to a number of Member States, situated, consequently, within the judicial system of the European Union, its decisions are subject to mechanisms capable of ensuring the full effectiveness of the rules of the European Union.

The Commission recommends addressing this point by limiting participation in the new patent court agreement to EU Member States. As you note in your letter, the Commission goes on to state that as a consequence it would seem possible for infringement proceedings then to be initiated against all Member States jointly were the unified patent court to violate Union law and for any financial liability arising to be applicable to all Member States jointly.

By limiting participation in the proposed agreement to EU Member States we are satisfied that the Commission's recommended approach addresses the issues raised by ECJ Opinion 1/09. This approach received support from the vast majority of Member States when it was discussed at the Competitiveness Council on 30 May 2011, so I am confident it will be adopted.

The Presidency has produced a revised draft agreement for the Court system based on the Commission's recommendations. This draft has now been published and I will deposit the new draft agreement and submit an Explanatory Memorandum accordingly.

UK industry has not yet had an opportunity to comment on the detail of the new draft agreement. The Government regularly consults UK stakeholders on developments with both the unitary patent and unified patent court negotiations and we will continue to engage positively with industry.⁹

16. The revised agreement to establish the UPC nonetheless preserves much of what was in the previous agreement establishing the ECPC, including that:

- the UPC would comprise a court of first instance and a court of appeal;
- the court of first instance would be composed of local, regional and central divisions; local divisions would be set up by individual contracting States (but there would be no obligation to do so); a regional division would be set up by two or more contracting States; and there would be one central division;
- the courts of each division of the court of first instance would sit in multinational panels of three judges; the court of appeal in a multinational panel of five judges; and
- the UPC would have exclusive jurisdiction, after a transitional period, over the infringement and validity of both European bundle patents (granted by the EPO) and EU unitary patents.

17. There are several major differences between the UPC and the ECPC agreements, however, designed to overcome the objections of the Court of Justice. The UPC agreement is restricted to EU Member States only—non-EU Contracting States of the European Patent Convention are no longer parties to the agreement. And the EU, as a legal entity separate to its Member States, is no longer a party to the agreement, which means that the EU budget will no longer help finance the UPC. The new UPC agreement also introduces provisions on joint Member State liability for any failure of the UPC to apply EU law, including the provisions of the unitary patent Regulation.

3 The draft unitary patent Regulation and agreement on the UPC

Legal base in the EU Treaties

18. The basis of EU action in the field of intellectual property rights and their protection is Article 118 of the Treaty on the Functioning of the EU (TFEU):

In the context of the establishment and functioning of the internal market, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall establish measures for the creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the Union and for the setting up of centralised Union-wide authorisation, coordination and supervision arrangements.

Articles 3 and 6 to 8 of the draft unitary patent Regulation and co-decision negotiations

19. Since political agreement (“a general approach”) on the unitary patent Regulation was reached in June 2011,¹⁰ it has been the subject of negotiations between the Presidency, the European Parliament and the Commission under the co-decision procedure, with a view to

¹⁰ The Committee lifted the scrutiny reserve on the draft Regulation, under paragraph 3(b) of the scrutiny reserve resolution, in order for the Minister to be able to agree to the general approach.

agreeing a deal at first reading. The Council's position in these negotiations was based on the text agreed at the general approach, which we set out below.

20. Article 3 defines the unitary patent. Articles 6 and 7 define what acts amount to a direct and indirect infringement of the unitary patent, and Article 8 lists areas of activity which are typically patent-free. It is of note that the draft unitary patent Regulation does not define what amounts to a valid unitary patent, or what the scope of a unitary patent should be.

Article 3—European patent with unitary effect

21. Article 3 of the Regulation is intended to provide for the creation of the uniformly protected intellectual property right mentioned in Article 118 TFEU:

- (1) European patents granted with an identical scope of protection in respect of all participating Member States shall benefit from unitary effect in the participating Member States provided that their unitary effect has been registered in the Register for unitary patent protection referred to [...]
- (2) A European patent with unitary effect shall have a unitary character. It shall provide uniform protection and shall have equal effect in all participating Member States.

A European patent with unitary effect may only be limited, transferred, revoked or lapse in respect of all the participating Member States.

A European patent with unitary effect may be licensed in respect of the whole or part of the territories of the participating Member States.

Article 6—Right to prevent the direct use of the invention

22. Article 6(1) provides that “the European patent with unitary effect” (the unitary patent) “shall confer on its proprietor the right to prevent any third party not having the proprietor's consent from the following:

- (a) making, offering, placing on the market or using a product which is the subject matter of the patent, or importing or storing the product for those purposes;
- (b) using a process which is the subject matter of the patent or, where the third party knows, or should have known, that the use of the process is prohibited without the consent of the proprietor of the patent, from offering the process for use within the Member States;
- (c) offering, placing on the market, using, importing or storing for those purposes a product obtained directly by a process which is the subject matter of the patent”.¹¹

¹¹ The text of the Regulation and the proposed revisions can be found on the Council's website in the form of a *limité* document which has been made public: <http://register.consilium.europa.eu/pdf/en/11/st17/st17578.en11.pdf> (“Proposal for a Regulation of the European Parliament and of the Council implementing enhanced cooperation in the area of the creation of unitary patent protection - Analysis of the final compromise text”).

Article 7—Right to prevent the indirect use of the invention

23. Article 7(1) provides that the unitary patent “shall confer on its proprietor the right to prevent any third party from supplying or offering to supply within the participating Member States any person without the proprietor's consent, other than a party entitled to exploit the patented invention, with means, relating to an essential element of that invention, for putting it into effect therein, when the third party knows, or should have known, that those means are suitable and intended for putting that invention into effect.”

24. By virtue of Article 7(2) paragraph 1 above “shall not apply when the means are staple commercial products, except where the third party induces the person supplied to perform any of the acts prohibited by Article 6.”

25. By virtue of Article 7(3) “[p]ersons performing the acts referred to in Article 8(a) to (d) shall not be considered to be parties entitled to exploit the invention within the meaning of paragraph 1.”

Article 8—Limitation of the effects of the European patent with unitary effect

26. Article 8 stipulates that the rights conferred by the unitary patent shall not extend to certain acts, including acts done privately for non-commercial purposes, experiments on a patented invention, and trials relating to human and veterinary medicines.

Co-decision negotiations with the European Parliament

27. On 19 January 2012 the Minister wrote to update us on the progress of the co-decision negotiations. She summarised the main changes as follows:

- New Recital 11a makes reference to provisions on damages in the enforcement Directive (2004/48/EC), not governed by the unitary patent Regulation.
- Recital 16 and corresponding Article 15(2) refer to taking account of the needs of small and medium sized enterprises in setting fees.
- New Recital 21b urges participating Member States to ratify the Agreement on the unified patent court in accordance with national constitutional and parliamentary procedures and take steps for the court to be operational as soon as possible.
- Articles 6–10 are clarified to refer only to territories where the patent has unitary effect (see Article 22).
- Article 12(2) is expanded to clarify that the Select Committee of the Administrative Council of the European Patent Organisation will consist of representatives of the participating EU Member States, together with an observer from the Commission, and will take decisions with due regard for the position of the Commission.
- Article 20 is changed so the Commission reports on the operation of the system after three years from the first unitary patent taking effect, and every five years thereafter (from six and six previously).

- Article 21 is amended to require participating Member States to notify the Commission of implementing measures, adopted by the date in Article 22, or the date from which the unified patent court has exclusive jurisdiction in that Member State.
- Article 22(2) sets out the application date of the Regulation as being 1 January 2014 or the date of entry into force of the Agreement on the unified patent court, whichever is later. European patents shall only have unitary effect for the participating Member States in which the unified patent court has exclusive jurisdiction at the date of registration (of the unitary effect). The consequence of this should be that the European patent has effect as a national patent in other States designated in the application, providing any national requirements are met.
- Article 22(4a) distinguishes between the date of 1 January 2014 for ensuring administrative arrangements are in place at the European Patent Office as required by Article 12, and the date for implementation of measures ensuring that unitary effect can be inscribed in the European Patent Register which must be by the time the unified patent court has exclusive jurisdiction for the state concerned.

Overview of the draft Agreement to establish the UPC

28. Article 1 establishes the creation of the UPC as a court common to the contracting States with exclusive jurisdiction for European patents and European patents with unitary effect (unitary patents). Article 2 provides definitions for certain terms used in the agreement. Article 3 describes the scope of the UPC's jurisdiction. Articles 3a and 3b deal with legal status and liability of the UPC. Article 4 specifies that the UPC will be made up of a court of first instance, a court of appeal and a registry. Articles 5–9 outline the functions of these parts of the court.

29. Articles 10–14 outline the duties and obligations of judges of the UPC, including eligibility criteria, appointment and training (see further below).

30. Article 14a specifies that the UPC shall respect the primacy of EU law and apply the entire body of EU law. Article 14b makes provisions to ensure the proper application and uniform interpretation of EU law. Specifically, provisions are made to ensure the UPC refers questions on the interpretation of EU law to the Court of Justice. Article 14c sets out joint liability of the contracting States should the UPC fail to apply EU law. Article 14d requires that the contracting States ensure the UPC complies with their obligations under EU law. Decisions of the UPC will be directly attributable to the contracting States.

31. Article 14e-14i sets out the applicable law for the UPC, including listing allowable defences within the court. Articles 15 (bifurcation—see further below) and 16 describe the jurisdiction of the UPC. Article 17 allows for the creation of mediation and arbitration centres.

32. Articles 18–21 set out the financing requirements of the UPC (see further below). The court shall be self-financing with fees set and reviewed periodically by an administrative committee. Any shortfall in the budget of the court would be provided by the contracting States.

33. Articles 21a-28 set out the organisational and procedural provisions relating to the UPC; this includes outlining who is responsible for representing parties in the UPC.

34. Articles 29–31 describe the language arrangements of the Court (see further below). Articles 32–34 set out the procedures before the UPC and the rules for evidence.

35. Articles 34a-44a deal with the powers of the UPC, including the provision of temporary and permanent injunctions. Articles 45–47 set out how appeals will be dealt with.

36. Articles 49–56 describe the method that the UPC will use to reach decisions and then to ensure that the decisions are enforced.

37. Articles 57–57b present the details of how the UPC will be implemented and operated following agreement.

38. Article 58 outlines the transitional arrangements for pre-existing European patents (see further below). In particular, it allows holders of European patents applied for or granted before the UPC is created to opt-out of the jurisdiction of the UPC.

39. Articles 58a-60 set out the requirements for the entry into force of the agreement.

Key Articles of the Agreement

Separation of infringement and validity—bifurcation

40. Article 15 provides that if in a claim for infringement a defendant raises a counterclaim that the patent is invalid, the local and regional divisions have a discretion to either:

- hear both claims together; or
- hear the infringement claim and refer the validity claim to the Central Division; or
- suspend the infringement claim and refer the validity claim to the Central Division; or refer both claims to the Central Division (if both parties agree).

41. Infringement cases may be brought in a local or regional division provided that Member State or region is where:

- the alleged infringement occurred; or
- the defendant resides or carries out business.

42. If there is no appropriate local or regional division, infringement cases can be brought in the Central Division.

43. Validity claims must be brought in the Central Division. However, if the patent concerned is already the subject of infringement proceedings in a local or regional division, then the validity claim must be brought in the same local or regional division.

Costs

44. Article 18 provides that the UPC will be funded by contracting States during the transition period. Afterwards, it will be self-financing; court fees shall consist of a fixed fee and a value-based fee above a certain threshold which is yet to be defined.

45. By virtue of Article 19 contracting States which host central, regional or local divisions will be responsible for providing the necessary facilities; contracting States' contributions to the UPC are yet to be defined.

Languages

46. Article 19 obliges local divisions to use the language of that contracting State and regional divisions to use the language designated by the States sharing it. If both parties agree, or the panel of judges so decides, the language of proceedings can be changed to that of the patent.

47. The Central Division will use the language of the patent (English, French or German).

Judges

48. Article 10 provides that judges of the UPC "shall ensure the highest standards of competence and proven experience in the field of patent litigation." Technically qualified judges must have expertise in both patent litigation and the relevant area of technology.

49. Article 14 states that a framework for the continuous training of judges will be established.

50. Article 6 concerns judges of the court of first instance. No panel may have three judges with the same nationality. For local divisions with little experience, panels must have one judge from the hosting Member State and two with different nationalities. The remaining local divisions must have panels with two judges from the hosting Member State and one with a different nationality. Any party or panel may request that an additional technically qualified judge is allocated to the panel.

51. Panels of the Central Division must have one judge with qualifications in the area of the technology concerned.

52. Article 7 concerns the court of appeal. Panels must have five judges. Three judges must be both legally qualified and of different nationalities. Two judges must have technical qualifications in the area of technology concerned.

Exclusivity and transitional provisions

53. Article 15 gives the UPC exclusive competence for European patents and unitary patents.

54. By virtue of Article 58 the transition period for the UPC will be seven years. During this period, proceedings concerning (non-unitary) European patents may still be initiated before national courts. Existing holders of European patents and those applying for

European patents may also opt in or out of the exclusive competence of the UPC during this period.

55. A review of the UPC will be carried out five years after the UPC Agreement comes into force. Following this review, the transition period may be extended by up to another seven years.

The Statute of the UPC

56. The draft Statute outlines the institutional and financial arrangements for the UPC. Articles 2–9a set out the requirements for judges, including the eligibility criteria, their appointment and how they should serve in office. Articles 10–12a outline the arrangements for governing the new court system. Articles 13–15 set out how the Court of First Instance should function including the composition of panels. Article 16 sets out the requirements for the composition of panels of the Court of Appeal. Articles 17–20 define the functions of the Registrar. Articles 22–32 present the financial arrangements for the UPC. This includes the framework for adopting the budget each year. Articles 33–37 deal with the process of reaching decisions within the UPC and how dissenting opinions will be dealt with. Annex II to the Statute lists the topics to be included within the Rules of Procedure.

4 The Unified Patent Court: help or hindrance?

Overview

57. The consensus among patent professionals was that unified patent protection within Europe is desirable in theory.¹² This is because having one action and one decision to replace litigation in several countries has obvious benefits, such as consistency and reduced costs.¹³

58. However, the theme of the evidence which the Committee received was that the current draft of the agreement to establish the UPC is likely to worsen the *status quo*;¹⁴ a view not confined to the UK.¹⁵ At the root of this are concerns about the jurisdiction of the Court of Justice of the European Union, increased forum shopping as a consequence of bifurcation being permitted in the UPC, increased litigation costs, the quality of judges, and the effect on SMEs (Small and Medium Enterprises), on the European Patent Convention, on the UK's position as a hub for international patent litigation, and on the UK's Patent County Court.

12 Henry Carr QC (Ev 36); CBI (Ev w1); CIPA (Ev 39); IP Federation (Ev w2); IPLA (Ev w3) [Note: references to 'Ev wXX' are references to written evidence published in the volume of additional written evidence published on the Committee's website]

13 IPLA (Ev w3)

14 Ev 29; Ev 37; Ev w1; Ev 39; Ev w2; Ev w4; Ev w5; Ev w12; Ev 53

15 Ev 29; Ev 53

59. The evidence also demonstrated concern about process. The drafting of the agreement was widely criticised for being both rushed and opaque.

60. Only one submission of evidence favouring parts of the current draft agreement was received,¹⁶ other than from the Government. A request to the Government to point the Committee to evidence in favour of the UPC was unanswered.¹⁷

61. If the UPC goes ahead as in the current draft, the UK faces a difficult decision about whether or not to join in. Opting out risks marginalisation; opting in risks commitment to a damaging scheme. When asked, however, expert witnesses expressed a preference in favour of the UK joining the UPC, even in these circumstances, in the absence of an alternative¹⁸—to be left out would be the worse option for UK business. However, this was said in the hope that London would be secured as the location for the Central Division, which would mitigate some of the ill effects of the UPC whilst reaping the economic rewards of hosting a large European institution.¹⁹

62. Overall, there is mystification as to why the EU is pressing ahead in the face of such opposition. One theory, offered by Timothy Roberts and supported by the other expert witnesses, was as follows:

The only theory I can suggest to you is that the EU needs a victory and this can be presented as a victory. This is something they have been trying to do for 40 years. They have almost got agreement on something. It is a very desirable objective and it is being presented, outside the UK, as a victory, as something that the EU can do. There is a need, as *The Daily Beast* requested, “Please cable victories”. That is the motivation behind this.²⁰

63. The Government agreed that there had been attempts to rush the negotiation of the agreement.²¹ However, it emphasised that in its view the UPC is not a done deal; “negotiations are ongoing and the Government will continue to work hard to ensure that the interests of UK industry are protected before we sign any final agreement”.²²

Jurisdiction of the Court of Justice

64. Articles 6 to 8 of the proposed EU unitary patent Regulation contain provisions on direct and indirect infringement of patent rights. This means that EU law will govern this aspect of substantive patent law. Baroness Wilcox conceded that there was no published body of expert opinion supporting the inclusion of Articles 6 to 8 in the unitary patent Regulation. However, two arguments were put forward by the Government. Firstly, that “the effect of the *acte clair* doctrine [...] would potentially reduce the number of references

16 Ev w7

17 Q 1

18 Q 33; Ev w3

19 Qq 33, 35

20 Q 22

21 Q 76

22 Ev 48

to the ECJ”.²³ As Nicholas Fernandes explained, “the doctrine of *acte clair* is a principle that, where provision is clear, it does not need to be interpreted; therefore, no reference is required”.²⁴ He went on to say that “patent law [...] has been largely untouched by European legislation, so the opportunities for reference are less.”²⁵

65. One member of the patent professions, Professor Dr Winfried Tilmann, agreed. He thought that the previous decisions of patent courts would mean that “it will not be necessary to start all over again in submitting all these questions to the ECJ, because of the *acte clair* doctrine”.²⁶

66. However, Henry Carr QC said of this argument that it “misunderstands the criteria for references to the CJEU”:

A reference must be made unless the interpretation is *acte clair*. *Acte clair* only applies where a judge is sure, not just how he/she would interpret the provision, but also how it would be interpreted by all other Member States. This has led to a large number of references in relation to the Trade Marks Directive, and published expert opinion, including that of Sir Robin Jacob, emphasises that this will be the case with Arts. 6-8.²⁷

67. The second argument put forward by the Government in favour of Articles 6 to 8 was that “the infringement set out the very core of an IP right, and therefore it is crucial that these provisions appear in the EU legislation establishing the unitary patent”.²⁸

68. By contrast, the vast majority of experts forecast unnecessary harm if references were able to be made to the Court of Justice.²⁹ There were two main concerns: delay and judges’ lack of expertise.

69. Henry Carr QC described the difficulties which currently result from delay:

I have appeared in several cases in the European Court of Justice, largely because of the trademark system, which is already subject to the European Court of Justice. We have a trademark regulation, a trademark directive, so questions of interpretation are referred to the European Court of Justice. Let us say you are involved in a trademark case and a question of interpretation arises; unless the UK Court is absolutely certain what the answer is—not just here, but in all Member States—it has to refer it. So your case then stops and it takes about two years to get an answer from the ECJ and, of course, during that time there are additional costs because the parties have to prepare written observations, governments intervene, you go to a hearing in the ECJ and you eventually get an answer. It then comes back to the UK Court, who then tries to interpret the answer. There has not just been extra delay and extra cost but in

23 Q 131

24 Q 131

25 Q 134

26 Ev w7

27 Ev 46

28 Ev 48

29 Q 2; Q 45; Ev 36; Ev w3

trademarks it has been really difficult to interpret the answer. Then there is a great debate about who has won and then you have to continue with the case. It has not proved a system that intellectual property lawyers throughout the world wish to expand and the problem with the existing proposal is that it expands it into patents as well.³⁰

70. CIPA also foresaw particular difficulties for SMEs:

Such legal uncertainty can lead to more litigation between parties trying to clarify their respective legal position. It can also prevent parties from entering a market in which they would be free otherwise to compete but for the uncertainty of the legal position and the threat of litigation. Both outcomes increase costs and can damage innovation and the functioning of the market, especially for SMEs.³¹

71. Regarding judges' expertise, one member of the patent professions, Professor Dr Winfried Tilmann, had no concerns: "the ECJ has been very active in the field of trademark law [...] generally speaking [...] practice is impressively good".³²

72. However, many others had concerns about the judges' lack of experience in patent law. Henry Carr QC emphasised the problem, that "the quality of justice administered by any court is dependent on the expertise of its judges".³³ Therefore, the consequence of Articles 6 to 8 would be low quality decisions at the highest instance.

73. Liz Coleman, on behalf of the Government, agreed that the Court of Justice has "no specialist experience".³⁴ Indeed, this was echoed by every other witness who gave evidence on this topic.³⁵

74. In particular, the undesirability of including Articles 6 to 8 in the unitary patent Regulation was repeated at a meeting of the Intellectual Property Judges Association on 28-29 October 2011. Twenty-seven judges were present, 24 of which were from the EU. They unanimously resolved that:

They were against the proposed inclusion of Arts.6-8 of the current draft Regulation into the final Regulation and that if they were included the new system would fail to achieve the object of a better system of patent litigation in Europe.³⁶

75. Strongest of all was the statement made by Professor Sir Robin Jacob:

"There is no time for anything other than plain speaking. I am fortunate enough to have had wide experience, as barrister, judge and now academic, with the patent system from all angles. I have many contacts amongst users and lawyers. I know of

30 Q 12

31 Ev 39

32 Ev w7

33 Ev 36

34 Q 101

35 EPLAW (Q 45); CIPA (Ev 39); IPLAW (Ev w3); Henry Carr QC (Ev 51);

36 IPJA; Ev 36

no one in favour of involvement of the CJEU in patent litigation. On the contrary all users, lawyers and judges are unanimously against it.”³⁷

76. Neil Feinson referred to the Government’s “desire for [Articles 6 to 8] to be removed from there to limit the opportunity for cases to go on reference to the ECJ”,³⁸ as did Baroness Wilcox.³⁹ Nevertheless, Baroness Wilcox was clear that “among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation.”⁴⁰ If they were not removed, she explained “we are told by our witnesses that they still think we should go forward”.⁴¹ The numbers of concerns expressed by the patent profession suggest that this instruction is a last resort.

Conclusions

77. With the exception of Professor Tilmann,⁴² the patent professionals who submitted evidence were opposed to the Court of Justice being given jurisdiction over this, or any, aspect of substantive patent law. This was because:

- Articles 118 TFEU does not require the Court of Justice to have jurisdiction over Articles 6 to 8 of the proposed Regulation: Article 3(2) is sufficient to establish an intellectual property right providing uniform protection;
- it is just as important to unitary effect that provisions concerning scope of protection and validity are uniform as that provisions concerning infringement are uniform; yet Articles 6 to 8 do not contain provisions on scope of protection or validity;
- this is likely to lead to the development of EU jurisprudence in one area of substantive patent law, causing unhelpful and unnecessary asymmetry;
- the Court of Justice does not have the necessary expertise in patent litigation;
- the preliminary reference procedure before the Court of Justice is too slow: in patent litigation, which concerns claims of continuing economic harm, commercial necessity and fairness require a court to come to a final decision as soon as possible;
- the preliminary reference procedure will add considerable or prohibitive costs for litigants;
- which would defeat the whole purpose of having a specialist patent court;
- there are likely to be many references to the Court of Justice arising from its jurisdiction over Articles 6 to 8.

37 Ev 36

38 Q 81

39 Q 107

40 Ev 36; Ev 48

41 Q 107

42 Ev w7

78. Set against these are the arguments made by the Government, the Commission, and Professor Tilmann, namely that:

- Articles 6 to 8 are necessary to establish the intellectual property rights contained in Article 118 TFEU (a point made by all three);
- in addition, EU intellectual property rights are to be superimposed on national rights rather than derived from harmonizing national laws (the Commission);
- it is inevitable that the Court of Justice should have ultimate jurisdiction over Articles 6 to 8, as they are provisions of secondary EU law (all three);
- however, references to the Court of Justice will be rare because of the doctrine of *acte clair* (the Government, Professor Tilmann).

79. It is plain, in our view, that the jurisdiction of the Court of Justice over Articles 6 to 8 leads to anomalous consequences—on what grounds can the infringement of a patent ever be considered more important than its validity as a matter of EU law?—and highly undesirable consequences—decisions by non-specialist judges, added delay and costs. To say that the doctrine of *acte clair* will limit the number of references made to the Court of Justice appears to be wishful thinking rather than evidence-based: the case law of the Court in relation to trade marks, design and copyright is a case in point.

80. We agree with those who so strongly oppose the inclusion of Articles 6 to 8 in the unified patent Regulation. There is, however, in our opinion an inevitability to their inclusion. Whilst the arguments of Professors Kraßer and Jacob strike us as right as a matter of patent law, the counter-arguments of the Commission on what is required to implement Article 118 TFEU seem to reflect the firm views of the EU institutions, including the Court of Justice, as a matter of EU law. This calls into question whether incorporating a unitary patent regime within the EU will ever be practicable.

Separation of infringement and validity—bifurcation

81. Henry Carr QC explained the meaning of bifurcation in his written evidence:

In an action for infringement of a patent, the validity of a patent may be challenged, for example on the basis that it lacks novelty or contains no inventive step. Invalidity is a defence to an action for infringement.

In the UK, validity and infringement are normally tried together. However, in Germany, they are separated, with the question of infringement being decided first. This is known as “bifurcation”.⁴³

82. The current draft UPC agreement gives discretion to divisions of the UPC as to whether or not to separate trials of infringement and validity (i.e. whether or not to bifurcate).

83. If a case is bifurcated, the local and regional divisions will deal with infringement cases and the Central Division will deal with validity.⁴⁴ The Central Division will use the language of the patent (English, French or German), whereas regional and local divisions will use the local language.⁴⁵ Dr Gassauer-Fleissner did “not see any reason why it should not work, because in particular Germany has a long tradition in excellent patent litigation. It is one of the leading countries in this respect.”⁴⁶

84. However, no UK-based experts favoured bifurcation and most voiced their opposition.⁴⁷ The three main concerns raised were forum shopping, the effects on SMEs and fairness.

85. Liz Coleman stated that “bifurcation is only an option for a panel, so we do not expect it to happen in every case”.⁴⁸ However Henry Carr QC stated in his oral evidence that:

[I]f Germany generally bifurcates and the UK doesn't, then as a patentee—patent holder—you will start your case in Germany because, if you think it through, you want to win and you have got more chance of winning and getting your injunction if validity is not being considered.⁴⁹

86. Therefore the impression was that, if bifurcation is permitted, patentees are likely to choose courts that bifurcate because this gives them a better chance of winning. This was described as forum shopping: choosing a particular court because the desired result is more likely there. Therefore, bifurcation would be commonly chosen by patentees.

87. Henry Carr QC thought there would be further detriment to SMEs:

[T]he practical problems of bifurcation for a company are—say that you are a small company; you trade on the internet. You can be sued anywhere and an injunction will apply across the whole of Europe. You are sued in wherever—Greece, an injunction is granted on the basis that you fall within the claims of the patent and three and a half years later the Central Division says, “Oh, by the way, that patent was invalid”, at which point you are out of business. It is a real, practical problem.⁵⁰

88. CIPA viewed the practice as unfair:

[I]t is quite unfair to the party accused of infringement. If the patent is invalid, it cannot be infringed. The infringement trial (in Germany) is faster than the validity trial. Infringement may be found (and the “infringer” required to cease operations and pay damages) well before the patent is proved to be invalid in the validity trial. An even stronger objection is that the patentee can put a different case in the two

44 Q 139

45 Q 140

46 Q 60

47 Henry Carr QC (Q 24); CIPA (Ev 39); IPLA (Ev w3); AIPPI (Ev w5)

48 Q 142

49 Q 24

50 Q 24

trials [...] Trying validity and infringement together is intrinsically fairer because the patentee must then argue only for one consistent meaning.⁵¹

89. However, Liz Coleman, on behalf of the Government, stated that:

One of the ways that we hope to mitigate [...] would be to address the timing issue, so that the two arms of the case should come together in timing; you should not be able to have a decision on infringement without the decision on validity being speeded up so that the two come together. We are hoping that can be addressed through the rules of procedure.⁵²

90. Neil Feinson went on to say that “before we sign on the dotted line, we need to know what the rules of procedure are going to be, because they are so important”.⁵³ Baroness Wilcox, however, was clear that “we are negotiating at the moment [...] There is no line in the sand”.

91. Henry Carr QC was concerned that “the agreement will be forced through before procedural rules have been agreed”.⁵⁴ CIPA were also concerned that “the danger from bifurcation is grossly underestimated”.⁵⁵

Forum shopping

92. Witnesses pointed out that forum shopping could arise from reasons other than bifurcation. Dr Gassauer-Fleissner, for example, said:

I think the choice of the Court to go to will not, in my view, depend on the bifurcation issue. It may depend on the question of whether I want to go to an experienced division or not. I see this as different from the bifurcation issue.⁵⁶

93. The benefits of forum shopping were outlined by Vicki Salmon:

My personal view is that forum shopping is a good thing at some levels, as it produces competition between Courts. One of the things that we have had in this country has been competition between the High Court and the Patents County Court, which has led to each of them improving their procedures.⁵⁷

94. This was echoed by Liz Coleman⁵⁸ and Baroness Wilcox: “Genuine competition on a fair basis can lead to efficiency and improvements”.⁵⁹

51 Ev 39

52 Q 142

53 Q 93

54 Ev 36

55 Ev 45

56 Q 61

57 Q 32

58 Q 103

59 Q 110

95. However, Henry Carr QC drew a distinction between choosing the most qualified court and choosing a court where one is more likely to get the result one wants:

[U]nder this proposal you say, “Okay, I can choose where I am going to sue. I am not going to sue in the UK or perhaps Holland, where I am going to get a judge who really knows.” I do not want to be too offensive about a country: “I am going to sue in Bulgaria this time”. That is real forum shopping and I get my injunction for everywhere.⁶⁰

96. Baroness Wilcox agreed that she “would be concerned about users shopping around for the right decision”.⁶¹

97. However, she stated that “the whole idea of us wanting to get the court right is that, wherever, therefore, the court is sitting in any of those countries, they will be playing by the same rules. This is the whole idea”.⁶² When asked to respond to concerns that courts across Europe do not operate according to the same standards, Baroness Wilcox replied: “Yes I would agree, of course, that the systems are all different. I would agree with all of this, but here is an opportunity for us to see if we can improve things for ourselves within the European Community”.⁶³

98. Despite Baroness Wilcox’s optimism, the sense was that forum-shopping would be difficult to avoid as it is already happening in practice. As Dr Gassauer-Fleissner said:

I think this may definitely lead to forum shopping for obvious reasons [...] There are many scenarios typical for each case and depending on the situation you find yourself in you may want to go to a Court that is perhaps more friendly to infringers or that is more friendly to invalidate patents. This is what is happening now even within countries like Germany.⁶⁴

99. He also acknowledged that deciding the best country in which to bring a claim would then become one of the first issues to consider when advising a patentee.⁶⁵

100. CIPA anticipated particular problems for SMEs if forum-shopping becomes common:

This will be particularly inconvenient for small companies from other countries, who will have extra expense in dealing with overseas proceedings not in their own language. They may be able to get the suit transferred from the local German division of the European Patents Court to the Central Court, so that infringement and validity can be tried together—but arranging the transfer will itself cause added trouble and expense. A cheaper alternative may be to concede the case unargued. This is a discouraging outlook for small companies.⁶⁶

60 Q 32

61 Q 111

62 Q 122

63 Q 123

64 Q 71

65 Q 72

66 Ev 39

Conclusions

101. The proposed UPC has discretion to bifurcate in any particular case, with a requirement that the Central Division will hear infringement and validity arguments at the same time. But there is no guidance as to how that discretion should be exercised. UK patent professionals are particularly concerned about this. They say that patentees will be advised to file their infringement suits in the local division of the UPC in Germany wherever possible, for the obvious reason that defendants will not be able to raise the validity of the patent as a defence. If the German local division finds in favour of the patentee, the judgment will be valid throughout the EU (a national court's decision is limited to national jurisdictions). This means an increase in forum-shopping and that Germany is likely further to dominate the market in patent litigation.

102. It will also be particularly inconvenient for small companies, which will have extra expense in dealing with overseas proceedings not in their own language. They may be able to get the suit transferred from the local German division of the UPC to the Central Division, so that infringement and validity can be considered together, but arranging the transfer will itself cause added trouble and expense.

103. **We recognise that a patent court which represents the traditions of 25 EU Member States, including Germany and Austria, will have to allow for bifurcation, but the probable consequences of this appear to us to be so grave, for the UK in particular, as to question the validity of a unified patent court in the EU in the first place.**

Absence of suitable judges

104. Baroness Wilcox expressed confidence in finding suitable judges:

Besides our own expert judges, there are already 150 patent judges in the German federal court, and states where there is little patent experience are keen to develop that expertise. All the participating Member States are committed to beginning training judges as soon as the court Agreement is signed. This would ensure that enough suitably qualified and experienced judges would be able to start work as soon as the new system comes in to force.⁶⁷

105. She also anticipated sufficient time to train judges because:

The Unified [Patent] Court should not lead to an increase in patent cases in Europe. [...] It will be the reverse, in fact, as multiple litigation is replaced by a single European act. A proportion of the existing expert patent judges in the major jurisdictions will therefore become available for work for the Unified Court as the caseload of the Court grows. It will not reach capacity for some years, and training for additional judges is already planned to start as soon as the court is agreed.⁶⁸

106. However, the feeling among the patent profession was that the draft agreement was unrealistic. Henry Carr QC:

67 Ev 48

68 Q 153

Article 10(1) of the draft agreement requires that judges of the Unified Patent Court shall “ensure the highest standards of competence and proven experience in the field of patent litigation”. Pursuant to Article 6, each panel must have a multinational composition. The Commission estimates that by 2022, when the transitional period ends, 101 full time and 45 part time judges will be required.

Patent expertise varies greatly between Member States. In some countries, such as the UK, Germany and the Netherlands, there are many patent cases. In others, such as the Eastern European countries, there are very few.

Therefore the requirement for multinational panels of judges possessing the highest standards of competence in patent litigation is a pipe dream. The quality of justice administered by any court is dependent on the expertise of its judges. It will be impossible to train such a large number of judges, who do not have the relevant experience, to an acceptable standard.⁶⁹

107. When asked about the likelihood of finding suitably qualified judges for the UPC divisions, Dr Gassauer-Fleissner agreed; “This indeed will be a problem because it is true that the number of patent infringement cases is very different in the various countries”.⁷⁰

108. There were two consequences that alarmed the witnesses. The first was uncertainty about funding, as Henry Carr QC described:

[W]ho is going to fund it all? Who is going to fund, for example, the training of these vast numbers of judges, all of whom are supposed to be patent experts, from Member States that have no patent expertise and have hardly ever heard a patent case?⁷¹

109. The second, as Vicki Salmon explained, was the resulting difficulties in administering justice within the UPC framework:

[I]f you have an incredibly valuable pharmaceutical patent you are quite worried about a non-expert judge deciding to revoke that in a territory that is not very familiar with patents, and your protection across the whole of Europe has gone until you can get it put back through the appeal process.⁷²

110. The SME Innovation Alliance felt that there was already an absence of suitable judges:

A patent [...] must be written so that it can be understood by a “person of ordinary skill in the art” (POSITA) [...] a patent is going to be incomprehensible to someone who is not a POSITA. This latter category includes judges. [...] Binding decisions on infringement should be made by a panel of appointed experts in the field of technology in question.

[...]

69 Ev 36

70 Q 67

71 Q 23

72 Q 25

In order to obtain grant, patents have been examined and approved by technically qualified patent examiners (who represent the authority's official POSITA).

[...]

If all of a granted patent is open to challenge then patent examiners are redundant. If their work is unsatisfactory, then address that. Instead SMEs have to assume responsibility and pay with their business when opponents challenge a granted patent—the cost of a challenge usually being sufficient to sink the SME or, at minimum, its patent.

Most challenges attempt to ascribe different meanings to words in the patent that the patent examiner had to have used e.g. “prior art”, deficient specification. Patent examiners do not appear in court, which seems an obvious failing as it is their decisions that are challenged, thus making this system open to a great deal of abuse. Anything relevant will, of course, have already been examined by the patent examiner in order to allow grant or reject the patent application so such challenges should not be allowed.⁷³

Conclusions

111. It is important to keep in mind what is required of a good patent judge, described by the Intellectual Property Lawyers' Association as follows:

Patent law comprises a series of concepts which are unfamiliar to most lawyers (and judges) who have not made a special study. Furthermore, decisions in patent cases require the application of the law to scientific facts in areas of technology with which the judges are unfamiliar. A good patent judge accordingly requires knowledge of patent law and experience of its application, together with a willingness to engage with and understand unfamiliar technologies. Judges who do not have these characteristics will find it difficult to give decisions which are fair and which will be respected by the litigants.⁷⁴

112. Patent expertise varies greatly between Member States. In some countries, such as the UK, Germany and the Netherlands, there are many patent cases. In others, such as the Eastern European countries, there are very few.

113. There is an irony to the fact that the ultimate jurisdiction for infringement of the unitary patent will lie with a non-specialist court, as EPLAW points out:

A fundamental objective of the project is to avoid decisions by inexperienced judges, particularly in courts of first instance, by centralizing patent cases before specialized courts and judges. The proposal as it stands aggravates the deficiency of the current system by turning the situation upside down since the CJEU, as a court of appeal for infringement of unitary patents, will be far from specialized. In any event, much effort is intended to be made to secure experience in the local divisions and in

73 Ev w12

74 Ev w3

creating a central division and a court of appeal which are structured and designed specifically to meet the particular challenges of patent law. However, on questions of infringement of the unitary patent under articles 6 - 8 the final say will now lie with the CJEU which completely lacks all the characteristics and features commonly accepted as requirements for a court that can render quality decisions and which will not be restructured to meet those characteristics and features. Further, the judges there will not have to go through the selection and training process that will be required for judges at the specialized patent courts.⁷⁵

114. The requirement for multinational panels of judges possessing the highest standards of competence in patent litigation is unrealistic. The quality of justice administered by any court is dependent on the expertise of its judges. Several of the witnesses, such as Henry Carr QC, conclude that it will be impossible to train such a large number of judges, who do not have the relevant experience, to an acceptable standard. We have little reason to prefer the assurances of the Government to the contrary over the experienced views of patent lawyers.

Costs of litigation and effect on SMEs

115. Baroness Wilcox acknowledged that she “cannot give a definitive view of the costs and benefits, at least in monetary terms, as fees for the patent and the court are still to be decided.”

116. This was of concern to the patent profession.⁷⁶ As Dr Gassauer-Fleissner said:

Nobody knows what this is going to cost. On the one hand, currently, at least in my country, even the Government does not know what it would cost because there are still disputes about where the local divisions would be and whether each country will have a local division. Secondly, nobody knows what the court fee will be. Nobody knows what costs can be reimbursed or asked to be reimbursed by the successful party.⁷⁷

117. As a result, although witnesses approved of the Minister’s intention to reduce costs,⁷⁸ doubts remained over whether the proposed UPC was realistic. CIPA was sceptical:

We have seen no reliable estimates for renewal fees or of litigation. Nevertheless it is claimed that the new system will be considerably cheaper, to the particular advantage of smaller companies (SMEs). However, this claim is based on doubtful assumptions.⁷⁹

118. Indeed, the patent profession was overwhelmingly of the opinion that the current draft of the UPC Agreement would increase litigation costs. The first concern was the

75 Ev 29

76 CBI (Ev w1); CIPA (Ev 39); IPLA (Ev w3)

77 Q 50

78 Ev 48

79 Ev 39

overall costs of the UPC in comparison to the UK's current court system. As Dr Gassauer-Fleissner explained:

[T]he cost of patent litigation is very different in the various countries and the Member States of the European Union. I would go as far as saying there is a ratio of one to 10 from the cheapest country to the most expensive country. From most of the civil law countries' points of view the new system would mean a significant increase in costs.⁸⁰

119. Henry Carr QC agreed that the UPC structure would be more expensive for the UK:

The current proposal is to have a Central Division, the location of which is yet to be determined, as well as Local Divisions in different Member States. A Regional Division may also be set up for two or more States upon their request. Each panel of each Division will have three judges.

[...]

This complex structure is likely to be far more costly and burdensome for SMEs than the existing system in the UK.⁸¹

120. Baroness Wilcox stated that "at the forefront of our mind is growth for our country and for our people in our country to have the very best way of proceeding in the world, particularly within the European Community [sic]".⁸²

121. The patent profession's second concern was that costs would increase for SMEs. Again, there were concerns that predicted cost savings were unrealistic.

122. In support of the savings to SMEs, Baroness Wilcox focussed on the relative costs of securing patents in 25 Member States, "we need SMEs in particular to be able to obtain a single patent covering 25 countries at an affordable cost. That is the whole idea."⁸³ However, CIPA thought that very few SMEs actually require protection in all 25 States and so cost savings would not be as great. In support, they quoted statistics estimating that 2% of patents are annually validated in all 27 EU Member States whereas 40% are validated in only the five largest EU markets.⁸⁴ CIPA predicted that, as a result, the UPC's lack of flexibility would be detrimental for SMEs:

If the patentee needs to economise, with a selection of countries he can abandon the less vital rights, and keep the others: with the unitary patent, the only choice is to pay in full or lose all rights.⁸⁵

123. Dr Gassauer-Fleissner summed up the harm he envisaged for SMEs:

80 Q 64

81 Ev 36

82 Q 84

83 Q 78

84 Ev 39

85 Ev 39

Creating an invention has two sides. One is getting the patent and the other is enforcing the patent. You are applying for a patent to get the patent and to enforce it and if enforcement is getting too expensive, in particular for SMEs, your patent has less value because many of those will not be able to afford it.⁸⁶

124. Henry Carr QC set out the expectations if the current draft UPC Agreement proceeds and causes increased costs:

There is a real fear in some quarters that some SMEs will fold because they are unable to get themselves properly represented in a distant European division and/or, if subject to a Europe-wide injunction from a remote court in a bifurcated system on their main product line, will simply not have the funds (without a product to sell) to enable them to establish that the patent is in fact invalid within a reasonable time. That would amount to a denial of justice. I am not persuaded that this concern has been taken on board.

These concerns are not just shared by the professions and the judiciary. They have also been expressed by industry. For example, on 16 December 2011 the CBI and IP Federation wrote to Baroness Wilcox describing the current proposals as "deeply flawed" and that they would, if accepted create a patent system worse than at present. The letter was endorsed, *inter alia*, by the Bioindustry Association. There is anecdotal evidence that substantial research-based undertakings are so concerned that they have started to file national instead of European patents, in an attempt to avoid the system altogether.⁸⁷

125. These concerns were echoed emphatically by the SME Innovation Alliance. They noted that the negotiations were making "a huge assumption which is that patent disputes should be tried in a court"⁸⁸ and asked "why other, far more accurate and reliable approaches such as technical binding arbitration are not being considered given this important opportunity".⁸⁹

126. They also felt that costs for SMEs were prohibitive:

All these processes rack up enormous costs, and we do not refer here to only legal costs and fees but those borne by the SME itself. It has to pay for its management and staff to travel, stay in accommodation and be diverted away from their business [...] [N]o SME can actually commence a case because of the high barrier of these different costs.⁹⁰

127. The SME Innovation Alliance harboured grave concerns for the future of UK businesses, because "no serious growth can result from such a system in which only corporate patents can be enforced".

86 Q 51

87 Ev 51

88 Ev w12

89 Ev w12

90 Ev w12

Validity of the EU impact assessment

128. Vicki Salmon of CIPA expressed concerns about the EU's impact assessment being "out of date" because:

[U]p until the bringing in of the enhanced cooperation, the EU was going to be heavily involved in the Court and was therefore going to provide a lot of funding from central resources for the divisions of the Court and for the training of the judges. With the change of that, following the enhanced cooperation, the EU funding was then not going to be available anymore.⁹¹

129. Liz Coleman, on behalf of the Government, did not think that the subsequent lack of EU funding would present a problem:

In the Government, we have always taken the view that the court should be self-funding from user fees, so we thought it was a perfectly acceptable way forward to go with Member States' funding rather than it coming from the EU budget, which we contribute to anyway. The funding mechanism, then, as far as the UK is concerned, does not make a lot of difference in terms of how the money actually gets there.⁹²

130. Henry Carr QC stated that the EU's impact assessment was, "extremely poor and extremely uncertain because they are based on all sorts of assumptions about how many cases are going to happen".⁹³

131. In addition, he thought it was "unclear whether any impact assessment has been done by the EU authorities of the effect of requiring the CJEU to determine questions of infringement when it cannot determine questions of validity".⁹⁴

132. Overall, the patent professions seemed to reach a consensus, voiced by Vicki Salmon, that "we need a new assessment as to what the costs would be, what the court fees are going to be and how that is going to be funded".⁹⁵

Conclusions

133. This complex structure of the UPC is likely to be far more costly and burdensome for SMEs than the existing system in the UK. A UK SME engaged in cross-border trade may also be required to defend itself against a pan-European injunction for patent infringement in the language of the local division chosen by the patentee.

134. How the UPC will be funded is highly speculative. There are no reliable estimates for litigation costs, but it is clear that a panel of three judges will cost more than a single judge. CIPA comments:

91 Q 7

92 Q 77

93 Q 7

94 Ev 51

95 Q 7

We have seen no reliable estimates for renewal fees or of litigation. Nevertheless it is claimed that the new system will be considerably cheaper, to the particular advantage of smaller companies (SMEs). However, this claim is based on doubtful assumptions. Comparisons are made between the costs of obtaining protection by 25 separate national patents via the EPO route with the cost of a unitary patent. This shows the unitary patent to considerable advantage—it could be much cheaper. But whether an SME necessarily needs protection in 25 EU countries is not considered. No inventions are ever protected in all countries where patents can be obtained. The cost of rights obtained is roughly proportional to the number of countries in which patents are sought. The additional value of extra rights falls rapidly. An SME with a significant invention will rarely be well advised to file in all countries of the European Union. It is often a better use of limited funds to file only in a few of the larger countries of the EU, those in which competition is likely to be most important.⁹⁶

135. Despite Baroness Wilcox’s insistence that “there is a very strong commitment from all those involved in negotiations that the patent and court system should be affordable for SMEs”⁹⁷ and “you can be sure that the one thing the Department for Business is not going to be doing is wanting to make small and medium-sized businesses disadvantaged”,⁹⁸ the patent professions remain unconvinced. As CIPA stated, “the statement is strong on hopes and weak on certainties [...] there are too many opportunities for things to go wrong”.⁹⁹ We share the concerns expressed by the professions that the UPC will be prohibitively expensive, and also take the view that the EU impact assessment needs to be urgently revisited.

Exclusivity and transitional provisions

136. The current draft UPC Agreement gives the UPC exclusive jurisdiction for all infringement and validity litigation concerning both unitary patents and national patents granted by the EPO (European Patent Office). A seven-year transition period is envisaged, during which patents granted by the EPO will not have to be litigated in the UPC.

137. Regarding the transition period, the Minister has stated that “a review will be carried out five years after the entry into force of the Agreement, with the possibility of prolonging the period by up to another seven years”.¹⁰⁰ Liz Coleman described this as “already getting quite long”.¹⁰¹ However, EPLAW did not consider this to be long enough:

Disputes about patent infringement very often arise towards the end of the 20 year patent protection period. Accordingly, it will only be possible to evaluate the viability of any new system, and its acceptance by new users, after more than seven years.¹⁰²

96 Ev 39

97 Q 90

98 Q 85

99 Ev 45 (CIPA)

100 Ev 48

101 Q 155

102 Ev 29

138. CIPA felt that a review was not sufficient: “If the system proves not to work, we have no redress. A “review” alone is not enough (reviews rarely changed things much). Instead, the review should provide member countries the opportunity to change or leave the system”.¹⁰³

139. Regarding exclusive jurisdiction, Henry Carr QC’s inclination was that patentees would try and avoid the UPC.¹⁰⁴ CIPA also advised that, “Such uncertainty as to the quality of the court and system may well mean that many companies will choose to pursue litigation through the national route for many patents in order to avoid the new court”.

140. In his oral evidence, Timothy Roberts stated that; “the European Patent Office, the new system introduced in 1978, has really been a remarkable success”¹⁰⁵. The resulting worry expressed by CIPA in written evidence was that “if the new system doesn’t work, it could be severely damaged, because in order to avoid that system, inventors will have to bypass the EPO”.¹⁰⁶

141. Henry Carr QC also thought that a problem, even if inventors choose to opt out of the UPC, is that “they have no choice when they are defendants”.¹⁰⁷

142. With reference to SMEs, Timothy Roberts was troubled by the effect of exclusivity on the means of enforcing patents:

We now have the Patents County Court, in which costs are capped and damages are limited to £500,000, and you have a special procedure. We have a new judge who simplifies the procedure and speeds it up. [...] Now, under the proposed new system, the exclusive right of the new Court will apply not merely to unitary patents but also to the European patents, which everybody here takes more or less as a routine. [...] so the exclusivity right of the new Court will remove from SMEs the opportunity to enforce their European patents quickly and economically.¹⁰⁸

143. Therefore, CIPA recommended that “we need to know the track record of the European Patents Court over at least a decade before any such exclusivity starts, and then the compulsion should only relate to applications filed *after* the end of that transition period and not to all then pending applications and granted patents.”¹⁰⁹

144. Vicki Salmon thought the UPC should firstly, “show that it is a success and then people will not want to use the national systems”.¹¹⁰

145. By contrast, Liz Coleman explained that “exclusive jurisdiction is something that the court will need, because otherwise we will end up with conflicting decisions between the

103 Ev 45 (CIPA)

104 Q 31

105 Q 31

106 Ev 39

107 Q 31

108 Q 26

109 Ev 39

110 Q 31

Unified Patent Court and the national court in relation to, certainly, the bundle patent in due course”.¹¹¹

146. When asked why the UPC was being given exclusive jurisdiction regardless of the expected problems, Vicki Salmon said “There seems to be a move, particularly from within the Commission, that the aim is to have a unitary Court and therefore everything should go to it and if it is in competition with other Courts it would not get any business.”¹¹² Timothy Roberts also suggested that “they would not make it compulsory unless it was necessary to make it compulsory”.¹¹³

Conclusions

147. The overall sense of the witnesses’ evidence was that the UPC was being given a monopoly.

148. The draft agreement gives the UPC exclusive jurisdiction for all infringement and validity litigation both on unitary patents and on national patents granted by the EPO. The transitional period of seven years after which European patents fall under the jurisdiction of the UPC is, in our view, too short. The fact that a review will be carried out to see whether a further seven-year transitional period is required is not a guarantee that the transitional period will be extended. The evidence we received stated that disputes about patent infringement very often arise towards the end of the 20-year protection period. Seven years is therefore a short period within which to assess the viability of the UPC.

149. In our view, the exclusivity of the UPC will be a problem if the UPC, as predicted, turns out to be disadvantageous to patentees and so is avoided by them. This is because it will stop patentees from using European Patents under the EPO, which after seven years fall under the jurisdiction of the UPC. According to CIPA, the EPO is considered to have been a success:

The EPO has been a remarkable success, without coercion. As an optional new system, competing with national patents, it has won the trust of users (who retain the opportunity to file for patents nationally). It is now a cornerstone of the European patent regime. But if the new Court system doesn't work, it could be severely damaged, because in order to avoid that system, inventors will have to bypass the EPO.

The uncertainties are numerous. No one knows yet how the European Patents Court will function or what it will cost. Whilst it is expected to be cheaper than litigating the same patent in three or four different EU member states, it is unlikely to be cheaper than litigation in one member state only. Will cases take longer than they do at present? We don't yet know the Court rules, which will be a key determinant of quality. Such uncertainty as to the quality of the court and system may well mean

111 Q 151

112 Q 31

113 Q 31

that many companies will choose to pursue litigation through the national route for many patents in order to avoid the new court.¹¹⁴

150. The UK Patents County Court (PCC) has procedures and a costs regime specifically designed for SMEs and is currently working well. After the transitional period, the current proposal gives exclusive jurisdiction to the Unified Patents Court, even in respect of existing European Patents, and so will exclude the PCC.

151. Some experts therefore recommend that the system of European patents should be allowed to continue in parallel with the UPC, whose jurisdiction would become non-exclusive.¹¹⁵

152. We conclude that the UPC should not be given a monopoly over both unitary and European patents until its capabilities have been proved.

Location of the Central Division

153. In addition to the UK's bid to host the Central Division, Baroness Wilcox informed the Committee that "Germany, France and the Netherlands have also made similar bids".¹¹⁶ She told us that "Securing the Central Division for London is still an important priority for the United Kingdom",¹¹⁷ however she warned the Committee that "negotiations are still ongoing";¹¹⁸ the situation remains unresolved.

154. All of the patent professions based in the UK agreed and wanted the UK to host the Central Division.¹¹⁹ They were motivated by the UK's expertise in patent litigation, the absence of other EU institutions in the UK and the economic benefits.

155. The City of London Corporation stated that "it is important that the Central Division is located in a city with global commercial reach."¹²⁰ It went on to cite evidence that, in 2009, "net exports of legal services from the U.K. amounted to some £2.5 billion" and, in 2010, "in a survey of global corporations, 30% expressed a preference for London as the seat of international arbitration; its closest competitors were Geneva, on 9%, and Paris, on 7%".¹²¹

156. It also pointed out that:

English is, increasingly, the international language of choice in commercial and scientific fields, as is pertinently demonstrated by the fact that some 55-60% of patent

114 Ev 39

115 Ev 29; Ev 39

116 Ev 48

117 Ev 48

118 Ev 48

119 Ev 48

120 Ev w11

121 Ev w11

specifications filed at the E.P.O. are written in English (compared to approximately 30-35% in German and 10-15% in French).¹²²

157. Timothy Roberts agreed that it “makes sense to litigate them in the language that they were granted in, in the country whose native language that is.”¹²³

158. The City of London Corporation also noted that:

[O]ther countries already host European intellectual property institutions: for instance, the E.P.O. in Munich, the Plant Variety Office in Angers, and the Office for Harmonisation in the Internal Market (Trade Marks and Designs) in Alicante. On this point and more broadly, it might be argued that the U.K. has a comparative dearth of significant European institutions, given its size and importance.¹²⁴

159. Henry Carr QC highlighted the economic benefits:

Although estimates vary, the current annual spend by industry (much of it from overseas) on patent litigation and associated advisory services in the UK is about £700 million. If the Central Division is located outside the UK and, if, as a result, most litigation is conducted elsewhere, this is projected to decline significantly. By contrast, the volume of patent cases heard in the UK (and consequent annual spend) may increase considerably, if the Central Division is located here. This seems conservative, as all validity challenges and all declarations of non-infringement will be heard by the Central Division.

The Central Division will create a significant number of highly skilled jobs. By way of comparison, the European Patent Office is located in Munich and employs at least 7000 people (the briefing note suggests a higher figure). Four times as many German nationals are employed at the EPO than UK nationals. Whilst the Central Division will not require as many staff, it is likely to be a major European institution, with consequent indirect enhancement of its location. As previously noted, if the Central Division goes to Germany, the bulk of the patent system, from grant to enforcement would be there.¹²⁵

160. When asked if there were circumstances in which the UK would compromise on the location of the Central Division, Baroness Wilcox said, “yes”.¹²⁶ She also explained another option:

[T]here was a suggestion that the Central Court might not necessarily be led by a national judge from the country it was going to be located in; it might be led by someone from another country. We would like to think that, if we did not get the location, we might be able to lead on that.¹²⁷

122 Ev w11

123 Q 33

124 Ev w11

125 Ev 51

126 Q 157

127 Q 156

161. Henry Carr QC also suggested an alternative:

It is not clear that there has to be only one seat of the Central Division. One option would be for the Central Division itself to have separate “seats” of which one would be the UK. From a UK perspective, this would be better than nothing. Alternatives such as these have not been considered.¹²⁸

162. However, he emphasised that the UK has a great deal at stake and the Central Division offers a saving grace:

If the Central Division is not in London, the current proposal will bring no benefit to the UK and considerable disadvantage to the UK economy overall.¹²⁹

[...]

I do not believe that Europe as a whole is likely to benefit from the current proposal [...] However, the country where the Central Division is located is likely to benefit disproportionately [...] ¹³⁰

Assuming it continues, whoever gets the Central Division will be able to mitigate [...] definitely, the most serious effects.¹³¹

Conclusions

163. **The location of the Central Division will be crucial, as it will inevitably have significant influence on the practice and procedures of the Court, as well as bring significant economic advantages to the host city. Bringing the Central Division to London (already a centre of international arbitration) would both build the credibility of the Court and bring economic benefits to London. If the Central Division is located outside the UK, there will be far less requirement for the high level of patent expertise that currently exists in this country.**

164. **It appeared from the Minister’s evidence that this was, however, an issue on which the UK might compromise.¹³² This would be unacceptable. As one of our witnesses noted “Whoever gets the Central Division will be able to mitigate or to put its own national stamp—because it is the most important place—on how this Court works. For example, there will be decisions the Central Division makes that affect everywhere. You will be able to mitigate, definitely, the most serious effects.”¹³³**

Supplementary protection certificates

165. Baroness Wilcox stated that:

128 Ev 51

129 Ev 51

130 Ev 51

131 Q 33

132 Q 156

133 Q 33

There is currently a lack of clarity around how the current system of SPCs will apply to the unitary patent and the pharmaceutical industry is quite rightly concerned. We need the Commission to bring forward legislation to extend the availability of SPCs to the new unitary patent, and the Commission has signalled its willingness to do so.¹³⁴

166. This issue concerned both CIPA and EPLAW.¹³⁵ CIPA set out their worries in their written evidence:

Supplementary Protection Certificates (“SPCs”) are a form of patent term extension which can be obtained for certain pharmaceutical and agrochemical products. The extension compensates for the time taken to obtain by regulatory approval. These rights mean a great deal to drug developers.

[...] SPCs are granted by national patent offices on national patents [...]

This regime will not extend to the new EU patent. A new regime is required. This is not simply a case of needing to adapt the current regulation to cover the EU patent as well as the national patents, an authority which will grant and administer the SPCs must also be established.¹³⁶

167. CIPA then went on to describe the uncertainties as to how and on what basis SPCs will be granted with unitary effect, and how they may be enforced or their validity challenged in the proposed unified system.

Conclusions

168. **On this issue, both the patent professions and the Government seem to agree that certain provisions are urgently required.**

Procedural rules

169. Baroness Wilcox stated that: “We have been clear during the recent negotiations about our wish to see and consider a draft set of rules before signing the court Agreement”.¹³⁷ However, she recognised that, although there has been “work on the rules of procedure by the group of experts that has started up again. That is about as far as we have got so far”.¹³⁸

170. Witnesses expressed concerns about inadequate consideration of the procedural rules.¹³⁹ Henry Carr QC explained:

A current (un-agreed) draft of the rules is immensely complex, containing over 200 provisions. Yet none of the existing documents even address fundamental questions,

134 Ev 48

135 EPLAW (Ev 29); CIPA (Ev 39)

136 Ev 39

137 Ev 48

138 Q 126

139 EPLAW (Q 41); Henry Carr QC (Ev 36); Q 1; Q 3

such as third party liability for patent infringement (accessory liability), legal professional privilege etc. Principles will have to be developed from scratch through case law of the new Court, a process which will be unpredictable and expensive.¹⁴⁰

171. Dr Gassauer-Fleissner was sceptical about the influence the patent professions would have; “I am not aware that any comments of EPLAW made any impact on this. Also my understanding is that there was not much discussion about the rules of procedure anyway.”¹⁴¹

172. The Vice-Chairman of the Intellectual Property Bar Association, Daniel Alexander, is expected to suggest amendments to the rules of procedure.¹⁴² Despite this, Henry Carr QC went on to express concern that: “the agreement will be forced through before procedural rules have been agreed¹⁴³”. This concern was shared by CIPA, following the former Polish Presidency’s announcement that the UPC Agreement was being delayed only by disagreements regarding the location of the Central Division.¹⁴⁴

173. Overall, those witnesses who commented on procedural rules felt strongly that they ought to be approved before the UPC is agreed.¹⁴⁵

Conclusions

174. **We think that it is premature to conclude the negotiations on the UPC agreement.** The reasons for this are well set out in the written submission from EPLAW:

It is premature to conclude any agreement on the new system. Important open issues include (1) the fees payable by the users of the new system (this again is vital for SMEs), (2) the allocation of costs and revenues to the participating states (which will play a role in some states’ decision on whether or not to create a local division of the court which in turn again is of importance for SMEs), (3) the draft procedural rules, which presently contain more than 400 provisions, will require an enormous effort to find compromises between the participating states on fundamental aspects of civil procedure law to ensure a harmonized, expeditious and appropriate procedure for all type of cases, and, not least, (4) the amount of recoverable costs that a successful litigant may claim. Those issues must not be left for later discussion but should be addressed before any agreement to implement the proposed system is concluded.¹⁴⁶

175. We note the emphasis placed by the Government on the negotiation of the Rules of Procedure as curing the defects in the UPC agreement, for example in relation to contemporaneous hearings for infringement and validity actions in relation to the same patent.¹⁴⁷ **We asked to be kept informed of significant developments in the negotiations**

140 Ev 36

141 Q 41

142 Q 5

143 Ev 36

144 Ev 39

145 CBI (Ev w1); IPLA (Ev w3); Henry Carr QC (Q 4)

146 Ev 29

147 Q 142

on the Rules of Procedure, and of how consultations with stakeholders have influenced the Government's position in those negotiations.

5 Overall conclusions

Process

The approach of the EU

176. We think the Polish Presidency was ill-advised to rush the negotiations on this agreement with a view to a signing ceremony taking place in Warsaw on 22 December. The considerable economic consequences of the UPC, both for Member States and the EU as a whole, are unsuited to a “quick-win” in the final days of a Presidency, as events proved. Equally, we think the Polish Presidency was ill-advised to prevent substantive amendment of the re-draft of the agreement, as reported by the Government.¹⁴⁸

177. We are surprised that Member States, including the UK, acquiesced so readily in this negotiating process, particularly in view of the widespread opposition to the UPC being voiced across the EU, and at a high level. The consequence was that informed third-party views were prevented from influencing the negotiations, with stakeholders left feeling as if they had been excluded.¹⁴⁹ This is far from a recipe for effective law-making, amply demonstrated by the evidence we received.

178. It also gives rise to a wider concern about the EU's approach to obstacles to implementation of its policy, on which we have recently reported in relation to the fiscal compact treaty for the eurozone.¹⁵⁰ On this occasion it appears to be one of wilful ignorance, or “see no evil, hear no evil”—remaining committed to a solution to enhancing patent protection that expert opinion almost uniformly thinks will significantly worsen the current situation.

The approach of the UK

179. We were alerted to the prospect of political agreement on the UPC in the Council on 5 December only shortly beforehand, and not by the Government. When on 1 February we questioned the Minister about the Government's stance at this meeting, she said that:

I have with me, ringing in my head, the things that the stakeholders have already said that they are worried about and that they want us to fight for when we get there. You would know that we have heard what the people who have given you evidence the last time round—the lawyers etc.—have said and, in a lot of cases, we are very sympathetic to what they have said, and we make those points when we get there. [...] that was why we did not agree a deal when I was in Brussels at the Competitiveness

148 Qq 75 and 76

149 See, for example, the final two paras of the submission of the Intellectual Property Lawyers Association, Ev w3.

150 European Scrutiny Committee, Sixty-second Report of 2010-12, *Treaty on Stability, Coordination and Governance: impact on the eurozone and the rule of law*, HC 1817

Council on 5 December; we felt that there had not been enough discussion, and we did not feel we had a stable text of the agreement long enough to assess it properly.¹⁵¹

180. Yet this was contradicted by the European Council Summit Statement of 30 January, a draft of which the Government would have approved, which stated that the EU intended to reach “a final agreement on *the last outstanding issue* in the patent package”, the location of the Central Division. When questioned on this Neil Feinson said he did not recognise this as “being the situation in the negotiations”¹⁵² and that it was “a simplification”;¹⁵³ the Minister that it was a “broad statement”.¹⁵⁴

181. Despite assertions from the Government that there was still scope for amendment of the agreement (“there is scope all the way along for amendment [...] it does seem that if you keep talking and if you stay in the room long enough, you are likely to get the things that will help the process forward”),¹⁵⁵ and that it was trying to make sure that Articles 6–8 were removed from the unitary patent Regulation,¹⁵⁶ there has been no amendment to the UPC agreement or the unitary patent Regulation since 5 December. This is because of the reality that such a move would not be supported by Member States. We would have welcomed the Government saying this in oral evidence.

182. Our impression, overall, was that the Government was not as candid with us in our scrutiny of this agreement as we would expect. In the evidence session of 7 March we requested the Minister to provide us with an update on the Government’s consultations with stakeholders;¹⁵⁷ despite agreeing, nothing has been forthcoming.

183. Further, in evidence the Minister appeared unwilling or unable to consider and assess the basis for the widespread opposition to the UPC agreement. We found her responses formulaic, or based on aspiration, and oddly detached from the practitioners’ perspective, despite words to the contrary. For example she commented that:

He [Professor Sir Robin Jacob] seems to be quite engaged by the whole thing. It [the UPC] is a great opportunity. We are not going to sign off things that would disadvantage small and medium-sized businesses, or even large businesses. The idea is for us to see if there is a mechanism available that will make it possible for us to better trade in the world. As we are part of the European Community [sic],¹⁵⁸ there is an opportunity here to try to get the system that we have better.¹⁵⁹

184. This should be contrasted with the statement by Sir Robin Jacob, expressed in the final paragraph of his opinion of 2 November 2011 on the UPC and unitary patent Regulation:

151 Q 73

152 Q 80

153 Q 80

154 Qq 98 and 99

155 Q 86

156 Q 130

157 Q 163

158 The European Community ceased to exist on the entry into force of the Treaty of Lisbon on 1 December 2009.

159 Q 105

There is no time for anything other than plain speaking. I am fortunate enough to have had wide experience, as barrister, judge and now academic, with the patent system from all angles. I have many contacts amongst users and lawyers. I know of no one in favour of involvement of the CJEU in patent litigation. On the contrary, all users, lawyers and judges are unanimously against it.¹⁶⁰

185. It should also be contrasted with the open letter sent to the Committee by the SME Innovation Alliance, which argues strongly for arbitration before a panel of technical experts as an alternative to litigation before patent courts:

These processes will take yet another twist with a Unitary patent through variations of meanings on any translation of the native language should courts be employed—making SME patent enforcement even less possible. Translating the claims of a patent into a different language immediately offers yet more language nuances that lawyers can pounce on given half a chance. A court process will increase patent invalidity and produce less infringement. None of this encourages growth and nor does it create jobs, quite the reverse of what you have been told.¹⁶¹

Conclusions

186. **Although the theory of a unitary patent and unitary patent court in Europe has long been thought desirable, the practice has long been elusive. The latest attempt appears, regrettably, to be a further example of this. Moreover, some of the criticisms raised by witnesses result from traits that are so ingrained in the operation of the EU that a legitimate question arises whether an effective unitary patent can ever be achieved within the confines of the EU's internal legal order.**

187. **We conclude overall that the draft agreement on the Unified Patent Court is likely to hinder, rather than help, the enforcement of patents within the European Union. This will particularly be so for SMEs, the main intended beneficiaries. Given our concerns, it is vital that the UK Government adopts a strong position reflecting the concerns of practitioners in final negotiations, as well as calling for the Central Division to be in London in order to mitigate the most damaging effects of a unitary EU-wide patent.**

Conclusions and recommendations

Jurisdiction of the Court of Justice

1. We agree with those who so strongly oppose the inclusion of Articles 6 to 8 in the unified patent Regulation. There is, however, in our opinion an inevitability to their inclusion. Whilst the arguments of Professors Kraßer and Jacob strike us as right as a matter of patent law, the counter-arguments of the Commission on what is required

¹⁶⁰ Ev 36

¹⁶¹ Ev w12

to implement Article 118 TFEU seem to reflect the firm views of the EU institutions, including the Court of Justice, as a matter of EU law. This calls into question whether incorporating a unitary patent regime within the EU will ever be practicable. (Paragraph 80)

Bifurcation

2. We recognise that a patent court which represents the traditions of 25 EU Member States, including Germany and Austria, will have to allow for bifurcation, but the probable consequences of this appear to us to be so grave, for the UK in particular, as to question the validity of a unified patent court in the EU in the first place. (Paragraph 103)

Absence of suitable judges

3. The requirement for multinational panels of judges possessing the highest standards of competence in patent litigation is unrealistic. The quality of justice administered by any court is dependent on the expertise of its judges. Several of the witnesses, such as Henry Carr QC, conclude that it will be impossible to train such a large number of judges, who do not have the relevant experience, to an acceptable standard. We have little reason to prefer the assurances of the Government to the contrary over the experienced views of patent lawyers. (Paragraph 114)

Cost of litigation and effect on SMEs

4. Despite Baroness Wilcox's insistence that "there is a very strong commitment from all those involved in negotiations that the patent and court system should be affordable for SMEs" and "you can be sure that the one thing the Department for Business is not going to be doing is wanting to make small and medium-sized businesses disadvantaged", the patent professions remain unconvinced. As CIPA stated, "the statement is strong on hopes and weak on certainties [...] there are too many opportunities for things to go wrong". We share the concerns expressed by the professions that the UPC will be prohibitively expensive, and also take the view that the EU impact assessment needs to be urgently revisited. (Paragraph 135)

Exclusivity and transitional provisions

5. We conclude that the UPC should not be given a monopoly over both unitary and European patents until its capabilities have been proved. (Paragraph 152)

Location of the Central Division

6. The location of the Central Division will be crucial, as it will inevitably have significant influence on the practice and procedures of the Court, as well as bring significant economic advantages to the host city. Bringing the Central Division to London (already a centre of international arbitration) would both build the credibility of the Court and bring economic benefits to London. If the Central

Division is located outside the UK, there will be far less requirement for the high level of patent expertise that currently exists in this country. (Paragraph 163)

7. It appeared from the Minister's evidence that this was, however, an issue on which the UK might compromise. This would be unacceptable. As one of our witnesses noted "Whoever gets the Central Division will be able to mitigate or to put its own national stamp—because it is the most important place—on how this Court works. For example, there will be decisions the Central Division makes that affect everywhere. You will be able to mitigate, definitely, the most serious effects." (Paragraph 164)

Supplementary protection certificates

8. On this issue, both the patent professions and the Government seem to agree that certain provisions are urgently required. (Paragraph 168)

Procedural rules

9. We think that it is premature to conclude the negotiations on the UPC agreement. (Paragraph 174)
10. We asked to be kept informed of significant developments in the negotiations on the Rules of Procedure, and of how consultations with stakeholders have influenced the Government's position in those negotiations. (Paragraph 175)

Overall conclusions

11. Although the theory of a unitary patent and unitary patent court in Europe has long been thought desirable, the practice has long been elusive. The latest attempt appears, regrettably, to be a further example of this. Moreover, some of the criticisms raised by witnesses result from traits that are so ingrained in the operation of the EU that a legitimate question arises whether an effective unitary patent can ever be achieved within the confines of the EU's internal legal order. (Paragraph 186)
12. We conclude overall that the draft agreement on the Unified Patent Court is likely to hinder, rather than help, the enforcement of patents within the European Union. This will particularly be so for SMEs, the main intended beneficiaries. Given our concerns, it is vital that the UK Government adopts a strong position reflecting the concerns of practitioners in final negotiations, as well as calling for the Central Division to be in London in order to mitigate the most damaging effects of a unitary EU-wide patent. (Paragraph 187)

Formal minutes

Wednesday 25 April 2012

Members present:

Mr William Cash, in the Chair

Nia Griffith
Kelvin Hopkins

Jacob Rees-Mogg
Henry Smith

Draft Report (*The Unified Patent Court: help or hindrance?*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 187 read and agreed to.

Resolved, That the Report be the Sixty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No.134).

Written evidence was ordered to be reported to the House for printing with the Report in addition to that ordered to be reported for publishing on 20 December 2011, 18 January, 25 January and 1 February.

[Adjourned to a day and time to be set by the Chair.]

Witnesses

Wednesday 25 January 2012

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Timothy Roberts, President, Chartered Institute of Patent Attorneys, **Vicki Salmon**, Chair, Litigation Committee, Chartered Institute of Patent Attorneys and **Henry Carr QC**, Chair, Intellectual Property Bar Association Ev 1

Dr Christian Gassauer-Fleissner, President of European Patent Lawyers Association Ev 9

Wednesday 1 February and Wednesday 7 March 2012

Baroness Wilcox, Parliamentary Under-Secretary of State for Business, Innovation and Skills, **Neil Feinson**, Director of International Policy, Intellectual Property Office, **Liz Coleman**, Divisional Director, Intellectual Property Office, and **Nicholas Fernandes**, Legal Adviser, Department for Business, Innovation and Skills Ev 13; Ev 22

List of printed written evidence

- | | | |
|---|---|---------------------|
| 1 | Dr Christian Gassauer-Fleissner, President of European Patent Lawyers Association | Ev 29; Ev 46 |
| 2 | Baroness Wilcox, Parliamentary Under-Secretary of State for Business, Innovation and Skills | Ev 34; Ev 35; Ev 48 |
| 3 | Henry Carr QC, Chair, Intellectual Property Bar Association | Ev 36; Ev 46; Ev 51 |
| 4 | Chartered Institute of Patent Attorneys | Ev 39; Ev 45; Ev 53 |

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/escom)

- | | | |
|---|--|--------|
| 1 | Confederation of British Industry | Ev w1 |
| 2 | James Hayles, President of the IP Federation | Ev w2 |
| 3 | Intellectual Property Lawyers' Association | Ev w3 |
| 4 | Trevor Cook, President of the International Association for the Protection of Intellectual Property UK | Ev w5 |
| 5 | Professor Dr Winfried Tilmann, Attorney-at-Law, Düsseldorf, Germany | Ev w7 |
| 6 | Office of the City Remembrancer, City of London Corporation | Ev w11 |
| 7 | SME Innovation Alliance | Ev w12 |

Oral evidence

Taken before the European Scrutiny Committee

on Wednesday 25 January 2012

Members present:

Mr William Cash (in the Chair)

Nia Griffith
Kelvin Hopkins
Chris Kelly

Penny Mordaunt
Stephen Phillips
Henry Smith

Examination of Witnesses

Witnesses: **Timothy Roberts**, President, Chartered Institute of Patent Attorneys, **Vicki Salmon**, Chair, Litigation Committee, Chartered Institute of Patent Attorneys and **Henry Carr QC**, Chair, Intellectual Property Bar Association, gave evidence.

Q1 Chair: Welcome everybody. I will just make a few opening remarks because this is a very important and a very technical question that is before the Committee. I ought to add that we have received evidence from the following organisations, which I would just like to get on the record: the European Patent Lawyers Association, Henry Carr QC, Chairman of the Intellectual Property Bar Association, the Confederation of British Industry, the Chartered Institute of Patent Attorneys, the IP Federation, two letters with attachments from the Minister, Baroness Wilcox, and also, finally from the Intellectual Property Lawyers' Association.¹ We have also had it from the AIPPI, which is the Association Internationale pour la Protection de la Propriété Intellectuelle.

I would also mention that the evidence so far appears to be broadly consistent and very much in line with that which has been given by Henry Carr QC and the Chartered Institute of Patent Attorneys. This is a hugely important question, I repeat, and it is something that we want to get right. I have to add that the Committee has not received any expert evidence whatsoever that supports the agreement on the UPC as drafted. We have also asked the Minister to refer to any such evidence but the Minister has not responded. Therefore we start the proceedings on the basis that we are very much looking forward to hearing what you have to say. We have a number of questions; in fact, we have 18. We want to ask short questions, to which we hope you will be able to give us fairly short answers. To start off: to date what opportunities have you had to contribute to the formulation of policy on the EU unitary patent and the Unified Patent Court, the UPC? Could I ask each of you in turn?

Henry Carr: None really. There have been contributions from Sir Robin Jacob, who has offered a few opinions, but on the issues which he has offered opinions it is pretty clear that no one wants to listen very much.

Timothy Roberts: As you know, we have been debating this matter for 40 years and certainly I was taken by surprise when, around about this autumn, we suddenly discovered that it was all going to happen.

Ms Salmon can talk perhaps rather more about what the Institute said than I can?

Vicki Salmon: There have been some meetings with the IPO where we have been talking about some of the issue that have come up. Sometimes they happen and sometimes there have been periods when nothing happened. Everything stopped around the time the reference went off to the European Court for an opinion on the legality of the agreement; then it came back and things moved quite quickly and while we were saying "Can we see the new drafts please, because everything has changed?" suddenly everything was frozen. We then produced some quite detailed comments. A group of experts got together and produced a set of detailed comments, some of which I think are beginning to come through in some of the amendments to the Court agreement, but we are not getting any amendments through onto the Regulation at all.

Q2 Chair: Would it be appropriate for me to perhaps to mention at this stage what Professor Sir Robin Jacobs said in his opinion dated 2 November? He is generally regarded as having unrivalled expertise in intellectual property. If I quote it, perhaps you could comment on what he said: "This is no time for anything other than plain speaking. I am fortunate enough to have had wide experience, as barrister, judge and now academic, with the patent system from all angles. I have many contacts amongst users and lawyers. I know of no one in favour of involvement of the CJEU in patent litigation. On the contrary all users, lawyers and judges are unanimously against it". Is that something that you would understand to have been correct?

Henry Carr: Yes, as presently drafted, I do. The problem that Sir Robin is referring to is the fact that, because substantive provisions on the law of infringement of patents have been included in the draft regulation, questions concerning their interpretation would have to be referred to the Court of Justice, which I think everybody is agreed will cause a great deal of delay—at least two years in the middle of proceedings—and the decision will then be by judges who do not have expertise in patent law.

¹ Evidence can be viewed on the Committee's website: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/european-scrutiny-committee/>

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Therefore this is a very unfortunate aspect to the proposal.

Q3 Nia Griffith: You mentioned amendments a moment ago. Do you think perhaps the three of you could explain to us whether any of the contributions that you have made to date have actually influenced either the draft regulation on the unified European patent or the intergovernmental agreement on the Unified Patent Court? Has anything you have said or contributed been reflected in what has been produced?

Henry Carr: No, I do not think so. Looking at it from the perspective of the IP Bar, again, Sir Robin has rather been leading the way and I cannot find that the fundamental objections that we have made to the current proposal have made any difference.

Timothy Roberts: Yes. Normally the Chartered Institute of Patent Attorneys has almost as many opinions as it does members, and one of the reasons we got involved, because this did not appear to be an occasion where there was more than one. There is a remarkable unanimity of opinion in the profession about this. As to influencing the content of the system at all, the only movement that we have observed was we have seen a lot more enthusiasm for having the central Court in the UK. Initially, we had not heard anything about it and we made representations and we were very glad to see that that had been taken on board. Apart from what Ms Salmon may have to say, I am not sure that there was any other movement anywhere else.

Vicki Salmon: We have put comments in but sometimes it is hard to know quite how many of them get through and how strong a negotiating position there is, because we represent to the UK Government and then it all goes quiet and we find the whole European legislation process quite opaque. It is very difficult at times to find even what draft is under discussion and therefore it is quite difficult to see what is going into it.

Q4 Nia Griffith: Has the Government actually sought your views on the rules of procedure at the UPC?

Henry Carr: Just to amplify one thing that Vicki just mentioned, it is correct that initially the Government did not seem to be interested in bidding for the central division. I and others sent various emails and they did respond to that, in that the UK Government is now bidding for the central division, which, for many reasons you may ask me about, is really important. It is the one thing we might be able to do something about in practice. So they did respond.

There is a committee, as it were, on rules of procedure. Nobody did anything about them for years. There are now 405 paragraphs of immense complexity, which curiously do not deal with some of the fundamental questions that one would expect the rules to deal with. Interest is revived in them again. I do not think we have approached the UK Government with that level of detail yet.

Q5 Nia Griffith: But you will do so?

Henry Carr: Yes, in fact Daniel Alexander, who is the Vice-Chairman of the IP Bar Association, has some quite good amendments to suggest on that.

Q6 Nia Griffith: Does anyone else want to comment on that in particular?

Vicki Salmon: The most recent of the drafts have been circulating and comments are being put together, in order to be fed mainly into the expert group through people like Sir Robin Jacob.

Q7 Nia Griffith: Have you got any views on the impact assessments that have been done either by the Commission or by the UK Government?

Henry Carr: Regarding the impact assessments by the Commission, I think there is a general view particularly in relation to costs—how this Court is going to be funded and how much litigants will have to pay to bring cases. The impact assessments are extremely poor and extremely uncertain because they are based on all sorts of assumptions about how many cases are going to happen. They are very poor, and quite alarming from the perspective of SMEs, who may be claimants or defendants under this system.

Timothy Roberts: Yes, if we take, for example, the impact assessment done by the Hargreaves Committee in the first half of last year, before there was a clear idea of all the details of the current system and before—I think, although I am not sure—it was clear that Spain and Italy would not necessarily take part. As we understand it, the economic evidence that that Committee looked at supported the idea that if we had a good, properly working unitary patent system it was worth £2.1 billion to the UK economy every year from 2020 onwards. Now, personally I do not understand the analysis. It might be right but it entirely depends on the assumptions they made and it entirely depends on the assumption, principally, that it was small- and medium-sized companies who would benefit from this and who would produce the £2.1 billion of growth and I do not feel that that is supported. I might be wrong, but it is not supported as I understand it.

Vicki Salmon: The original evidence on the litigation was done by Professor Harhoff several years ago. A lot of people were quite surprised and thought there were many errors in it and did not think it was a very good basis upon which to be building a policy. In any event, up until the bringing in of the enhanced cooperation, the EU was going to be heavily involved in the Court and was therefore going to provide a lot of funding from central resources for the divisions of the Court and for the training of the judges. With the change of that, following the enhanced cooperation, the EU funding was then not going to be available anymore, so I think we need a new assessment as to what the costs would be, what the court fees are going to be and how that is going to be funded.

Q8 Nia Griffith: So effectively you are saying we really ought to be starting again on all of this?

Vicki Salmon: It is out of date.

Q9 Chair: In relation to enhanced cooperation, as you raise that question, of course there are limitations

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on the use of that procedure. I think I am right in saying it should be used mainly as a matter of last resort. Are there any political reasons that you can consider that would tend towards the promotion of this proposal which have not yet been disclosed? Who and which countries might benefit from it as compared, for example, to the assertions that Europe as a whole will benefit? Could you just elaborate a little bit on some of the underlying political questions? I know the Poles were particularly interested to get this through during their presidency and I just felt that it was being pushed rather and that there was an accelerated enthusiasm to get it through to benefit individual countries. Could you perhaps just give us a little elaboration on your views on that?

Henry Carr: Yes. I think the country that stands, potentially, to benefit most from this is Germany. And the reason for that is that Germany, as you know, already has the European Patent Office, which is a very big employer in Germany, a very successful organisation. It employs over 7,000 people. It is a big organisation; I think it is the second biggest European institution after the Commission. If Germany, as it wishes to, gets the central division, in effect—for reasons I can explain if you wish—most cases will go to the central division. Therefore, the other centres of expertise in patent litigation, which are primarily the UK and the Netherlands, will lose out very considerably. Germany will then gain another big institution, which will be very important and will very much expand the amount of patent litigation, its importance to patents, than it already has. They are the big gainers. Now, why that caused the Poles to accelerate, I am not sure. Many of these presidencies want to say they have done something. Certainly, the big gainer would be Germany if they get that central division.

Q10 Chair: In relation to the German question, would you say that it is going to enhance their economic prosperity for them to have the advantages of this Court in the way you have described?

Henry Carr: I would certainly say it will. If we look at the situation in the UK at the moment and then, perhaps, compare it with Germany, I have seen various figures—the reliability of which I would not vouch for—but in broad terms, currently it seems that patent litigation and patent advisory services in the UK generate hundreds of millions of pounds for the economy. That is as it stands at present. Germany is even more so; there are more patent cases in Germany than here, but we are still a big player. If we would get the central division, estimates I have seen are that we would get about five times as much patent-related work than we do at the moment, so you would be into billions. Whoever gets the central division, it is going to be a major employer of skilled people because obviously there would so many cases so many staff. Therefore, I think whoever gets that will benefit their economy greatly, if it goes ahead.

Q11 Chair: Finally on that, before we move onto the substance, perhaps you could do a paper for us on that question, between all of you? There seems to be such unanimity in the profession that I suspect that there

are things not known to Parliament, things which are not being disclosed to us at the moment, from which we would be able to benefit. If you could do that, that would be very helpful.

Henry Carr: I can certainly do that, absolutely.

Q12 Kelvin Hopkins: There is clearly a fairly uniform and profound concern over the involvement of the European Court of Justice in ruling upon the infringement and validity of patents. Its jurisdiction stems from Articles 6 to 8 of the Regulation and preliminary references made by the UPC. What is the basis for this concern? Could you elaborate your concerns about the involvement of the Court of Justice.

Henry Carr: I have appeared in several cases in the European Court of Justice, largely because of the trademark system, which is already subject to the European Court of Justice. We have a trademark regulation, a trademark directive, so questions of interpretation are referred to the European Court of Justice. Let us say you are involved in a trademark case and a question of interpretation arises; unless the UK Court is absolutely certain what the answer is—not just here, but in all member states—it has to refer it. So your case then stops and it takes about two years to get an answer from the ECJ and, of course, during that time there are additional costs because the parties have to prepare written observations, governments intervene, you go to a hearing in the ECJ and you eventually get an answer. It then comes back to the UK Court, who then tries to interpret the answer. There has not just been extra delay and extra cost but in trademarks it has been really difficult to interpret the answer. Then there is a great debate about who has won and then you have to continue with the case. It has not proved a system that intellectual property lawyers throughout the world wish to expand and the problem with the existing proposal is that it expands it into patents as well.

Q13 Kelvin Hopkins: I may be wrong, but I understand also that the caseload of the European Court of Justice in general is building all the time. There is backlog and it might even get worse.

Henry Carr: Yes, that is one of the reasons why it takes so long, but it may, as you say, take longer.

Q14 Penny Mordaunt: If the objective of the regulation is to create a unitary patent across the EU and its legal base is taken from the EU treaties, then what is the alternative to having the supervisory jurisdiction of the Court of Justice?

Henry Carr: The alternative, as I understand it, is simply to have a provision to conform with Article 118 of the relevant EU Treaty that member states should interpret uniformly the provisions and then leave it to the member states to ensure that they do. It is a curious aspect, as I think Sir Robin Jacob and others have pointed out in their opinions, that whilst the drafters of the regulation in order to achieve this uniformity have felt it necessary to include provisions on infringement of patent in the regulation, they have omitted completely validity. Now, there are two aspects to any patent case: first, whether the patent is

infringed, and second, whether the patent is valid. If it is not valid it does not matter whether it is infringed, but the drafters apparently recognise that member states are required to interpret uniformly validity, so have not put it in, but they have put in infringement, which is where all the problems come from.

Vicki Salmon: At the moment the provisions about what makes a valid patent are in the European Patent Convention and when that was introduced back in 1978 all the member states brought their law into conformity with the European Patent Convention, so they all said the same thing. We have seen a body of judgments build up where our Courts actually look at the decisions coming out of the EPO and the boards of appeal to make sure that, even though the EPO is not a European organisation, there is a degree of harmonisation. The European Patent Convention is only about granting patents and not about enforcing them, so it does not have any provisions in it about what would constitute infringement. However, when it was being negotiated there was a text for a community patent drafted and therefore the states that joined in then would have put the same provisions in harmonised from that draft of the Community Patent text. Therefore what is being proposed at the moment is that the European Patent Office will continue to grant these bundles of patents, which will break down into national patents in different states and they will be regulated for infringement purposes by what our current law would say.

The unitary patent, we think, should be able to regulate infringement of that in the same way and the Court agreement has in it a set of provisions as to what the infringement provisions will be for all these European granted patents. They look pretty much the same as what we have in our national law. There are some little tweaks and differences, which hopefully means that we will get our law into conformity too, but it seems really bizarre to have a Court agreement which says, "If Italy comes into this Court agreement, if I infringe the Italian patent, here are the provisions for interpreting the infringement of the Italian patent. They are in the Court agreement, but I am litigating the Italian patent at the same time as the unitary patent because I can do it in the same Court and I have got to go to a different set of provisions, which are in Articles 6 to 8 of the regulation to decide what the infringement is of the rest of the patents and those will then go off to the ECJ for a decision if there is some kind of uncertainty as to the conformity". I think it is this division between the regulation and the Court Agreement. In fact, at the moment the wording of the two provisions is not even the same. With the difficulties of getting any amendments in it looks as though it is going to persist; that you are going to have these provisions that just do not quite match.

Q15 Penny Mordaunt: Mr Roberts, did you want to add anything to that?

Timothy Roberts: No, that covers it, thank you.

Q16 Henry Smith: Do you think that the requirement in the Court of Justice's opinion that the UPC refers preliminary questions to it puts the viability of the UPC in doubt?

Henry Carr: Yes, I do. When you say viability, I think what people will find is that it does not work very well; it works worse than our current system. In other words, in our current system you get your European patent as a bundle of rights; it takes effect in the countries you elect, so France, Germany, the UK, whatever, and you sue in those countries. That carries with it the disadvantage of suing in all sorts of different places. On the other hand, it does not carry with it the disadvantage of everything being held up as I have described. I think all patent lawyers that I have spoken to think the new system is going to be worse with these articles in it.

Q17 Henry Smith: Can I clarify that? Do you mean the patent lawyers that you have spoken to in the UK or in other European countries?

Henry Carr: In other European countries. I referred, in my evidence, to the opinion of the Council of Bars and Law Societies of Europe, which apparently represents about one million lawyers. The fact that there are one million lawyers in Europe is worrying, but nonetheless their view was that, partly because of Articles 6 to 8, the proposed system will increase legal uncertainty, increase cost and be bad for users. I think it is a very widespread view.

Vicki Salmon: There are some other papers in from other organisations, which have been written at different times. Some of those are multinational industry bodies. There certainly was a paper from some Swedish industry body and Articles 6 to 8 were all condemned in all the different papers that came forward. It was not just UK industry that was saying no. I think the EP lawyers' organisation also refers to that. It is not just the UK; it is coming from other countries, but there is a lot of apathy around as well.

Q18 Chair: So what is the reason for it all?

Vicki Salmon: We are struggling to find out, because apparently there is an opinion somewhere in the Commission but it seems to be hidden and difficult to get hold of. I know that Sir Robin Jacob wanted to see it.

Henry Carr: Sir Robin Jacob and Professor Rudolf Krasser of the Max Planck Institute both gave the view that this was not necessary to include. Then there was then a contrary view expressed by a Commission lawyer, whose name is not known, that they were wrong, and then there was a further opinion by Sir Robin saying, in somewhat outraged tones, "We are not wrong". There is a division of opinion, but if you look at the reasoning—I do not want to bore you with it all—there is very little to support the proposition that it is necessary to have these in.

Henry Smith: As suspected, Commission dogma, I am sure.

Q19 Chair: When you do this other paper, which I have asked you to do, could you also look at the question of why it is that Spain and Italy, for example, do not want it, and not merely that they do not want it but that actually the reasons for it? I am getting increasingly puzzled about the question of why it is that there is this headlong, rather obstinate, determination to go ahead with the proposal, which

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the entire industry, the lawyers, the judges, Sir Robin Jacob, everybody is against. There is some dynamic operating at the centre of gravity which is driving it forward, despite the expert evidence of pretty well everybody.

Henry Carr: Yes. Italy may be coming back into the fold because they feel there is no alternative. I will certainly include that in the paper. Spain's position is relatively simple. You will correct me if I am wrong, Vicki, but they say, "Look, there is a language issue with these unitary patents. Either they should be in English, full stop, or you should be able to have it, for example, in Spanish." At the moment it is their position that if you cannot have it in either, it should not go ahead at all.

Q20 Chair: No doubt you will explain all that in your paper.

Henry Carr: Absolutely.

Q21 Chair: Ms Salmon, is there something else you wanted to add?

Vicki Salmon: I think it would only be on the translation issue. Spain and Italy were quite firm that a lot of their translators would be losing out on work.

Timothy Roberts: Can I add something? You are asking why we are going ahead with this.

Q22 Chair: Why is it being gone ahead with?

Timothy Roberts: Yes. The only theory I can suggest to you is that the EU needs a victory and this can be presented as a victory. This is something they have been trying to do for 40 years. They have almost got agreement on something. It is a very desirable objective and it is being presented, outside the UK, as a victory, as something that the EU can do. There is a need, as *The Daily Beast* requested, "Please cable victories". That is the motivation behind this.

Q23 Chair: Does the fact that the EU is no longer a party to the agreement put the UPC's viability in doubt?

Henry Carr: As Vicki has indicated, it makes a difference to the costing: who is going to fund it all? Who is going to fund, for example, the training of these vast numbers of judges, all of whom are supposed to be patent experts, from member states that have no patent expertise and have hardly ever heard a patent case? There is the funding issue and there is the issue that I personally do not think that is going to be possible. I just do not think the proposal to have over 100 patent judges from 25 member states—it is possible, but in terms of competence there are only three or four member states where there are good patent judges. That is a real problem.

Q24 Nia Griffith: We turn now to the question of bifurcation. Are you clear about how the question of bifurcation—whether or not they consider the arguments at the same time about the infringement and about the validity of a patent—will be resolved in cases before the UPC? Are you clear that it is going to work, that it is going to be a proper working procedure?

Henry Carr: The problem with it at the moment is that the UK, for example, generally does not bifurcate cases. We hear infringement and validity together, on the theory, as I have said, that you cannot infringe an invalid patent. The right has never been there. Germany generally bifurcates and grants injunctions before hearing validity. Now, what the agreement so far has done is to fudge the thing and say that it is going to be up to the discretion of various local Courts whether to bifurcate or not. The problem with that is that if Germany generally bifurcates and the UK doesn't then as a patentee—patent holder—you will start your case in Germany because, if you think it through, you want to win and you have got more chance of winning and getting your injunction if validity is not being considered, at which point our Courts either say "We do not care; start all your cases in Germany" or they say, "We will compromise on our principles and bifurcate as well". It is a real problem. Just to conclude on that, the practical problems of bifurcation for a company are—say that you are a small company; you trade on the internet. You can be sued anywhere and an injunction will apply across the whole of Europe. You are sued in wherever—Greece, an injunction is granted on the basis that you fall within the claims of the patent and three and a half years later the central divisions says, "Oh, by the way, that patent was invalid", at which point you are out of business. It is a real, practical problem.

Q25 Chair: What problems do you foresee for British companies if the UPC can consider infringement before validity?

Henry Carr: Precisely what I have just said. Let us take the example of an SME that sells its products throughout Europe, advertised on the internet. It has, let us say, sent a few parcels to Estonia. Previously, there would be no purpose in suing in Estonia. At the moment there is no purpose, because there is hardly any trade there. Now, the patentee thinks, "Hang on, I will sue this company in Estonia and ask for an injunction to apply throughout the whole of Europe, including the UK". The first problem that applies is that the proceedings will then be in Estonian, in this example. The SME is facing the proposition of fighting a case, which affects its whole livelihood, in a language which it has no knowledge of. The next problem is that the proceedings are bifurcated; nobody considers validity. If the SME then decides to fight validity, which it really ought to, those proceedings, which then go to the central division, will probably be in a different language completely. They will not be in Estonian. You have got the costs of all these translations, you have got delays and you have got the possibility, as I have said, of an injunction being granted for years before you prove that it should never have been granted. That is essentially a summary of the problems. They are very serious.

Vicki Salmon: There are a number of conflicting things, because there are certain national traditions that people like and want to preserve, and you are trying to mesh that into a complete system. There is also the trouble of the non-expert judges in different countries. Therefore, if you have an incredibly

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valuable pharmaceutical patent you are quite worried about a non-expert judge deciding to revoke that in a territory that is not very familiar with patents, and your protection across the whole of Europe has gone until you can get it put back through the appeal process. There are a number of conflicting issues in terms of getting some of the revocation issues into the central Court, where there will be more expert judges, but then also leaving jurisdiction with the national Courts so that it is not all centralised. It is a very difficult problem to resolve.

Q26 Chair: Touching back on the question of SMEs, what do you think the consequences of the UPC as proposed will be on UK small- and medium-sized businesses?

Timothy Roberts: This has been a point that has worried us considerably and this is the exclusivity of the system. We have just constructed in the UK a Court especially for SMEs. There has been a lot of perfectly justified complaint that it is too expensive to enforce your patent in the British High Court. We now have the Patents County Court, in which costs are capped and damages are limited to £500,000, and you have a special procedure. We have a new judge who simplifies the procedure and speeds it up. This offers the opportunity, if you can get access to the Patents County Court, to have your case heard and disposed of sensibly and economically. Now, under the proposed new system, the exclusive right of the new Court will apply not merely to unitary patents but also to the European patents, which everybody here takes more or less as a routine. It is still possible to get national patents but most people do not bother, so the exclusivity right of the new Court will remove from SMEs the opportunity to enforce their European patents quickly and economically.

Q27 Henry Smith: How do you rate the UK Patents County Court and what effect do you think the UPC will have on it?

Henry Carr: The Patents County Court is much improved. For a while I did not rate it. It much depends on the personality of the judge. They have now got a very good judge who is speeding things up, limiting the amount of cross-examination and time things take in Court and it is a very viable alternative for companies that could not afford to bring these big set piece patent cases. Pharmaceutical companies can afford to, but many companies cannot. The problem, as Tim has indicated, is that once the unitary Patent Court takes exclusive jurisdiction, which it will after a transitional period of seven years I think, there is no more room for the Patents County Court. It has gone. Then everything is under this immensely elaborate procedure: three judges of different nationalities, local divisions, regional and central divisions. I think the cost will escalate.

Q28 Henry Smith: And there will be a significant impact on small companies, as you say?

Henry Carr: Indeed.

Q29 Henry Smith: The example you are using about being sued in Estonia, for example.

Henry Carr: Quite. So rather than contributing to the UK economy, as the Hargreaves Review assumed, by promoting the interests of SMEs, as it is currently set up I think it will do the reverse.

Vicki Salmon: The Patents County Court does have jurisdiction over some other matters as well but it is particularly its ability to hear the patent cases cheaply that is of importance here, and it will be left with the residual jurisdiction over national patents, but they are much fewer and further between, because people more frequently go for the European route, because that way you get to make an application in 38 or 40 countries and do not have to decide, until you get to grant, how many of them you wish to enforce it in or to validate it in, whereas if you have to make that decision at the outset you have to do all your translation costs up front before you know how viable your product is. So the ability to put off costs until the SME has developed and built up its market is terribly important when you are planning your patent filing strategies.

Q30 Kelvin Hopkins: You have said that the UPC should be given non-exclusive jurisdiction so can you think of reasons why member states are opposed to this?

Vicki Salmon: Yes.

Q31 Kelvin Hopkins: Can you explain what they are?

Vicki Salmon: There seems to be a move, particularly from within the Commission, that the aim is to have a unitary Court and therefore everything should go to it and if it is in competition with other Courts it would not get any business. We think that, like the European Patent Office, which set up with a handful of states and others have come in because it is a success, I would rather see it come the other way: show that it is a success and then people will not want to use the national systems, because they will see that this is a better one.

Henry Carr: Some very large companies have indicated, because of the problem we have discussed, that they may not wish to use this system. They may file national patents in different countries and continue to enforce them nationally. The problem with that is they have no choice when they are defendants, so it is not an option.

Timothy Roberts: Yes, there are two things. One is this question of making the thing compulsory. The European Patent Office, the new system introduced in 1978, has really been a remarkable success. It is not perfect but it is pretty good in many ways and we would be lost without it. Now, the advantage of that was it was always optional. If you did not trust it you could always file national patents instead. With the new Court it is not optional; if you want to make use of national patents you will no longer be able, under this proposed system, to go through the European Court. That is really a concern. It displays, really, a fundamental lack of confidence in the Court. They would not make it compulsory unless it was necessary to make it compulsory. That is one thing. The other thing is that it fits in with the philosophy of one Europe. We do not have a common language, but at

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least we can have a common patent system and we have common Courts.²

Q32 Chair: Could I ask Mr Carr and Ms Salmon to comment on that last remark you made? Do you agree with what Tim Roberts has said about the question of one European project which really is the driving force behind this?

Henry Carr: I do agree. I agree entirely with what Tim has said. The only comment that I would add, which I am not sure is entirely coming through at the moment, is that the idea of having a unitary or single European Patent Court is actually a very good one. It is the implementation of it that is the problem. For example, if you had, as was at one stage proposed, a travelling Court of genuinely expert, distinguished judges—not these divisions, a single Court—that would go and sit in various parts of Europe and in a language most convenient to the parties decide a case for the whole of Europe, that is a great idea. It is what it has become that is the problem. It is what it has become and the problems we are highlighting.

Vicki Salmon: Henry's talked a little bit about forum shopping and I think some of the moves quite early on were to try and remove some of the ability of parties to forum shop, because, when some of the European Court stuff took off, you had parties with quite a lot of different actions competing in jurisdictions as to which country was going to have the right to hear the case. Some of this is to try and iron out that so that you do not get forum shopping. My personal view is that forum shopping is a good thing at some levels, as it produces competition between Courts. One of the things that we have had in this country has been competition between the High Court and the Patents County Court, which has led to each of them improving their procedures. I think that is a good thing and I think that some of these moves have been to stamp this out: that there should be only one place where you go and therefore we must have a European system which is uniform and uniformly applied in a European way. Therefore, I think that absolutely reflects what Tim was saying.

Henry Carr: It is true and, if I may just add, actually I think the current proposal makes forum shopping infinitely worse.

Vicki Salmon: Yes.

Henry Carr: Now, under this proposal you say, "Okay, I can choose where I am going to sue. I am not going to sue in the UK or perhaps Holland, where I am going to get a judge who really knows." I do not want to be too offensive about a country: "I am going to sue in Bulgaria this time". That is real forum shopping and I get my injunction for everywhere.

Q33 Penny Mordaunt: Why is it so important the central division is located in the UK? I know you have touched on this with regard to Germany.

Henry Carr: I think there are a few reasons. Let us assume that this is going ahead. We can talk about the

problems, but let us assume it is going ahead. As I have said, I think it has the appearance of a train that is not stopping anywhere. I do not personally feel that it is an option for the UK to opt out, because if you opt out you will be marginalised and patent litigation will take place outside the UK. Assuming it continues, whoever gets the central division will be able to mitigate or to put its own national stamp—because it is the most important place—on how this Court works. For example, there will be decisions the central division makes that affect everywhere. You will be able to mitigate, definitely, the most serious effects.

The second point is that this is going to be a really important European institution. We do not have them. Germany already has the EPO. If Germany gets this Court as well, aside from the economic benefits that I have discussed, you also have the situation that militates against fairness, that the very place—and, indeed, I think Germany are planning to have it in Munich—that is granting the patents is deciding on their validity as well. That, to me, does not have a perception of justice at all.

The third reason I would point to is simply the economic benefits to the UK if we do get the central division in terms of skilled employment, a vast increase in patent litigation, and the opportunity to use and expand our expertise.

Vicki Salmon: There were a number of letters written last autumn by a number of different organisations expressing why they felt that the central division should come into the UK and I believe at least one of those letters put forward some figures as to what they thought the detriment might be to the UK economy if it did not. The IP Lawyers had put the turnover at about £100 million per annum and on top of that you have then got some support services from patent attorneys. We did not manage to get our figures together. There are people coming into the UK, staying here, using the local transport, shopping in shops, turning up before the hearings, coming to the main trial. There are experts who also get drawn into cases to come and give expert testimony, and shorthand writers.

We have got a very good Court system here. We have got a brand new Court building used to attract international litigation, because I think we do international litigation really well. This is a great location because of good transport links into London. There are lots of good reasons why the Court would be here. Many companies in America or Japan would probably prefer to come here and litigate in English than to work with some of the other language issues in other states, on top of all the things that Henry said.

Timothy Roberts: The only other thing I would add to that is that three quarters of European patents are granted in the English language and it makes sense to litigate them in the language that they were granted in, in the country whose native language that is.

Q34 Chair: As I understand it, Germany France and the UK are all bidding for the central division to be located in their respective countries. Against that background, is there anything further that you would like to add? We have your evidence here in writing, but in the light of what we have discussed today, is there anything further you wanted to add to that in the

² *Witness correction:* To clarify, what I was trying to say was: "If you want to make use of national patents via the European Patent Office, you will no longer be able, under this proposed system, to enforce them except through the European Court."

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light of other questioning that you have received and also, perhaps, looking at the reasons why the United Kingdom Government is so keen to press on with this and the effect that it is likely to have on UK interests?

Henry Carr: There are just a couple of things I would like to add. The first is I think that the UK Government is absolutely right to press for the central division to be here. It may not be the case, but let us assume we cannot do anything about Articles 6 to 8, for example. We need to press for the central division to the UK. Patents are really important to the UK. One of the most important things we have is innovation and we need to promote our expertise. France may be seen as the kind of compromise candidate. Without being disrespectful in any way to French judges, France does not have a great system of patent expertise, a great tradition of judgments. It just does not have it, and therefore it would be the default option, because the other two could not agree. When you think all of this through and combine the fact that we do not really have a significant European institution, this is the obvious one to bid for.

Q35 Chair: So if the central division is located in the UK, would that affect your thinking about whether the UPC itself is an acceptable compromise?

Henry Carr: Given the way it is set up, there are fundamental problems with the UPC, wherever it is located. Having said that, and looking at it pragmatically, what is one going to do about that? The answer is, assuming nobody is going to listen to these problems, that having the central division here is the way of mitigating the problems, with great benefits to our economy. I do feel that if we say, "Right, too many problems. We are not going to participate", that will be the worst of all possible worlds, because then we really will be marginalised.

Vicki Salmon: I do not really have anything to add to what Henry has said. I think if it is going to happen I

would rather be in it than not in it, but I would much rather have the Court here.

Timothy Roberts: Certainly if it is going to happen I would rather that it were here than anywhere else. I am not 100% sure actually as to whether it is better to stand aside and run the risk of being marginalised or not. An absolutely fundamental problem with this is you have more or less unanimity from the professional input that it is a bad idea. We might be wrong. Maybe it will be a success, but if we are right we are going to be stuck with this system and you are not going to be able to set up the UK Courts again in five or seven years because the system is not working. It has been compared to the euro, because as with so much European legislation, you can get into it but you cannot get out again. It is like a lobster pot.

Q36 Chair: So on balance, you would like whatever it is to be here in the UK. That is understood. But none of that alters your basic concern about the substance of the question, which is that the way they are going about it is not the way to go. Is that about the measure of it?

Timothy Roberts: Absolutely.

Henry Carr: That is right.

Q37 Chair: Good. Thank you all very much for coming. It has been very helpful. If you have got any further comments, either individually or collectively, then by all means give us some written submissions to add to what we have already said.

Henry Carr: We shall send you a short paper on the issues that you have asked us to.³

Chair: Thank you very much.

³ Ev 46

Examination of Witness

Witness: **Dr Christian Gassauer-Fleissner**, President of European Patent Lawyers Association, gave evidence.

Q38 Chair: Dr Gassauer-Fleissner, you heard some of the evidence that has already been given, but we will now go through the same evidence with you from a European perspective. If I could start with the first question: to date, what opportunities have you had to contribute to the formulation of the policy on the EU unitary patent and the Unified Patent Court, the UPC?

Dr Gassauer-Fleissner: First of all, EPLAW is obviously a non-governmental organisation. It is an association under Belgian law and membership is free to lawyers involved in patent law and, as such, EPLAW has been campaigning on this topic for a long period of time. In particular, my predecessor as President of EPLAW, Jochen Pagenberg, has spent a lot of his time campaigning against the drafts as they are currently on the table. He did as much as he could do from the position as a President of an organisation like EPLAW.

Q39 Chair: Have the contributions that you have made been reflected in either the draft regulation on the Unified European Patent or the intergovernmental agreement on the UPC?

Dr Gassauer-Fleissner: Only to a very limited degree.

Q40 Nia Griffith: You are saying really that what is in there now is not really reflecting what you have been contributing?

Dr Gassauer-Fleissner: That is correct.

Q41 Nia Griffith: Could you tell us a little bit about the rules of procedure for the UPC? Do you feel that what you have contributed has in any way affected the way that has been handled and drafted?

Dr Gassauer-Fleissner: As I think was said before, the current status of the rules of procedure dates back quite some time and I am not aware that any comments of EPLAW made any impact on this. Also my understanding is that there was not much discussion about the rules of procedure anyway.

Q42 Nia Griffith: What about your views on the impact assessments and the impact assessment that has been made by the European Commission?

Dr Gassauer-Fleissner: What do you mean by the impact assessment?

Q43 Nia Griffith: Normally, we call an impact assessment the document that explains how things will actually work out in practice and what the effects will be. Have you had an opportunity to see the impact assessments?

Dr Gassauer-Fleissner: I think almost everything that was said before is correct, that this proposal, as it is tabled now, will create more problems than it will solve. EPLAW certainly disagrees with what the Commission is saying about the possible merits of the draft as they are on the table now.

Q44 Stephen Phillips: What are the specific concerns that EPLAW has with regard to the

implementation, therefore, of the Commission's proposals?

Dr Gassauer-Fleissner: Most of them were addressed before. One is obviously the inclusion of Articles 6 to 8 and the consequence that the ECJ would be involved in matters of substantive law.

Q45 Nia Griffith: Pausing there, what does EPLAW see the difficulties being in giving the European Court jurisdiction in this area?

Dr Gassauer-Fleissner: I think there are various very important issues there. One issue is a timing issue. The involvement of the ECJ would delay infringement proceedings for years.

Secondly, the cost, which to a certain extent is interrelated with this, and third, which I think is maybe even the most important, is that the judges at the ECJ do not have patent law expertise. This is the point where I personally really do not understand the approach, because what we are talking about here, related to the UPC system if I may call it that, is to get as many experienced patent judges as possible and get cases away from local Courts that do not have patent experience in the first instance. What is proposed now is that there should be experienced local, regional divisions etc. at the lower level, at the first instance and at the Court of Appeal there should be experienced judges—left aside is the question where they will come from. Then, at the highest instance, at the level of the European Court of Justice, there will not be any experienced patent law judges anymore. What you can criticise in the system as it is now is that in some countries at the lower level of Courts you do not have patent law expertise in the judges. Now you are turning it upside down and creating a problem at the highest instance.

Q46 Stephen Phillips: In relation to this issue, EPLAW made those submissions to the Commission, did it?

Dr Gassauer-Fleissner: Yes.

Q47 Stephen Phillips: Were those simply ignored or was there some response to them?

Dr Gassauer-Fleissner: There was no official response. There was sometimes friendly acceptance in discussions but in fact EPLAW's interventions did not cause any modifications.

Q48 Stephen Phillips: If you take delay as an example, the Commission did not say, "Yes, that is a very good point, we could deal with that by doing something."

Dr Gassauer-Fleissner: No.

Q49 Stephen Phillips: On that issue at least, everything that EPLAW has said has been ignored by the Commission; is that fair to say?

Dr Gassauer-Fleissner: Yes.

Q50 Stephen Phillips: You were moving on, I think, to some other concerns as well, apart from jurisdiction of the European Court?

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Dr Gassauer-Fleissner: One other thing, of course, is the issue of the costs. Nobody knows what this is going to cost. On the one hand, currently, at least in my country, even the Government does not know what it would cost because there are still disputes about where the local divisions would be and whether each country will have a local division. Secondly, nobody knows what the court fee will be. Nobody knows what costs can be reimbursed or asked to be reimbursed by the successful party. The other thing that also was addressed before was the question of the exclusivity of the UPC, whether or not to have a parallel patent litigation before a national Court for the European patent, apart from the competence for the UPC for the unitary patent.

Q51 Stephen Phillips: Given the uncertainty in relation to costs and, indeed, the potential for increased costs for those seeking protection of their intellectual property rights, what impact does your organisation think that that would have on people coming forward with new patents over their technologies—not all technologies?

Dr Gassauer-Fleissner: Creating an invention has two sides. One is getting the patent and the other is enforcing the patent. You are applying for a patent to get the patent and to enforce it and if enforcement is getting too expensive, in particular for SMEs, your patent has less value because many of those will not be able to afford it.

Q52 Stephen Phillips: Is there, in your opinion, any real risk of damaging SMEs' abilities to create new technologies and new patents as a result of increased cost?

Dr Gassauer-Fleissner: There is a risk that SMEs will not be able to enforce their patents, yes.

Q53 Stephen Phillips: If they cannot enforce them they will not derive the revenue streams to which they would otherwise have been entitled from those patents.

Dr Gassauer-Fleissner: Correct, yes,

Q54 Stephen Phillips: The point, therefore, that I am putting to you is that they will not have so much to plough back into both the development of other patentable technology and indeed their business.

Dr Gassauer-Fleissner: Correct. Also applying for a patent is not cheap at all but it is also a good investment and it is one of the rare opportunities for a small- or medium-sized company to really create a market share. If you have really got a new idea and get it patented you create your own market just by paying the registration costs etc. and the annual fees, but if you are deprived of that, of course, this would be harmful for SMEs—for everybody, but for the SMEs in particular.

Mr Cash: Penny, perhaps you would be good enough to ask the question which we asked before, relating to the issue of the unitary patent being across the EU?

Q55 Penny Mordaunt: Yes. Given that that is the objective and that the legal base is taken from EU

treaties, the question is: what is the alternative to having the supervisory jurisdiction of the Court of Justice? How else could it work?

Dr Gassauer-Fleissner: I think the idea would be to have the centralised Court and the Court of Appeal would be the last instance to decide on the infringement question so you do not really need the ECJ for that.

Q56 Henry Smith: Do you think that the requirement in the Court of Justice's opinion that the UPC refers preliminary questions to it puts the viability of the UPC in doubt?

Dr Gassauer-Fleissner: The opinion of the ECJ has led to the fact that the drafts were amended to satisfy those questions or doubts the ECJ had, but all of that had nothing to do with the problems we are discussing now. What I am trying to say is, yes, indeed, the ECJ had some doubts, but they are dealt with and they are totally different from what we are talking about now.

Q57 Henry Smith: Do you think that the Court of Justice requiring that those initial questions—do you think that makes the UPC almost superfluous?

Dr Gassauer-Fleissner: No, because I think there are now provisions in the draft that should satisfy the ECJ but that has nothing to do with this question about Articles 6 to 8.

Q58 Nia Griffith: Are you clear how the question of bifurcation with the Court deals with the infringement and the validity as one thing or as two separate things—

Dr Gassauer-Fleissner: I come from a bifurcation country.

Q59 Nia Griffith: Absolutely. You are an expert on it, I am sure, but are you clear how it is going to be resolved in this new system? Is it going to work?

Dr Gassauer-Fleissner: Bifurcation has been working in Germany and in my country and there are pros and cons. I have been in patent law for almost 30 years and I have lived with bifurcation for 30 years.

Q60 Nia Griffith: But in a system that they are trying to create, where they are trying to put together countries that have traditionally had the bifurcation and countries which have not, as the new system is proposed, is that going to cause any problems, do you think, or do you think that the system is going to work perfectly?

Dr Gassauer-Fleissner: I think it will be easier for Germans and Austrians to understand it than for people coming from other jurisdictions, but I do not see any reason why it should not work, because in particular Germany has a long tradition in excellent patent litigation. It is one of the leading countries in this respect.

Q61 Nia Griffith: How will who choose what will be done in which Court? In other words, will there be a unitary system that everybody will be going along with or will there be differences?

Dr Gassauer-Fleissner: I think the choice of the Court to go to will not, in my view, depend on the

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bifurcation issue. It may depend on the question of whether I want to go to an experienced division or not. I see this as different from the bifurcation issue.

Q62 Nia Griffith: Because our previous witnesses did raise the question of what might happen if—

Dr Gassauer-Fleissner: Yes, but that happens wherever you go. The problem that was addressed before always arises independently whether you go to Bulgaria, England or Estonia. The same problem arises from wherever you start the infringement action.

Q63 Henry Smith: Is it possible to make an assessment or prediction of the costs of litigation before the UPC?

Dr Gassauer-Fleissner: No, I am not in a position to know.

Q64 Henry Smith: Do you think the costs will be increased from the system as it exists now across Europe?

Dr Gassauer-Fleissner: I think this certainly will depend on where you are starting from because currently my observation is that the cost of patent litigation is very different in the various countries and the member states of the European Union. I would go as far as saying there is a ratio of one to 10 from the cheapest country to the most expensive country. From most of the civil law countries' points of view the new system would mean a significant increase in costs.

Q65 Henry Smith: Do you think that is largely because the UPC would be slower and less efficient?

Dr Gassauer-Fleissner: No, I think this will start much earlier. Coming from a small country, the plaintiff can, if he chooses so, allocate a very low value to his claim for injunction, which has nothing to do with the money he may want to claim later on and this low value will be the important thing in how to calculate the court fee. It is in the hand of the plaintiff to make sure that the court fee is low and I am not aware that any of the like would be foreseen in the present system. From the point of view of court fee alone it must be more expensive than, for example, it is currently in my country.

Q66 Kelvin Hopkins: Some—possibly all—member states are opposed to the UPC being given non-exclusive jurisdiction. Can you spell out what you think the reasons for that are?

Dr Gassauer-Fleissner: There are many objections to the proposed system and there are sincere doubts from all across the patent industry, if I may call it so. There is a high risk that this new system will not work and will not be accepted by the industry and therefore it would be good to maintain the possibility to go the way that is provided for now with the current system.

Q67 Kelvin Hopkins: How likely is it that suitably qualified and experienced judges will be found to fill the local and regional divisions of the UPC?

Dr Gassauer-Fleissner: This indeed will be a problem because it is true that the number of patent infringement cases is very different in the various

countries. Again, coming from a small country, there are even big differences among the small countries. For, example, my own country has had patent law and patent litigation for more than 100 years. There is not such a big number of cases like in the UK or Germany, for example, but there is an extremely long tradition and we have Supreme Court cases on patent law dating back to the 1890s. So you really have to look at each country differently and you should not just talk about the number of cases currently decided.

Q68 Chair: Finally, if the evidence that we have received seems pretty conclusive that intellectual property judges, practitioners and the industry all over Europe, by the sound of it, are so against the proposed regulation agreement, why is it that these proposals are being pushed through and hurried through in Brussels?

Dr Gassauer-Fleissner: I do not know. The only reason I can see is the one that also was mentioned earlier, that the previous presidency wanted to present some kind of success after that many years of discussions. I may add one thing to what was said before. I am pretty sure that it was not the German industry that pushed this because, as I said before, my predecessor who was German really was campaigning almost half of his time against this. So I do not think there were particular German interests behind that.

Q69 Stephen Phillips: There are some European jurisdictions or member states where infringement and validity are dealt with together and there are some where they are not. There are some where the cost of infringement litigation, as I think you said, is one tenth of what it might be elsewhere; I imagine you mean in the UK.

Dr Gassauer-Fleissner: Correct.

Q70 Stephen Phillips: I think you also said that it would be easier to find suitably qualified patent judges in some jurisdictions than in others. Yet, as I understand the jurisdiction mechanisms for litigation in relation to infringement proceedings, it would be very easy to establish jurisdiction almost anywhere in the EU.

Dr Gassauer-Fleissner: Correct, yes.

Q71 Stephen Phillips: So to what extent do you think that those factors will influence those seeking to commence litigation and lead to overt forum shopping?

Dr Gassauer-Fleissner: I think this may definitely lead to forum shopping for obvious reasons because sometimes as a claimant you are sure you have a good patent and sometimes as a party you see your strength on the infringement side and sometimes you see your strengths or problems or vice versa on the validity side. There are many scenarios typical for each case and depending on the situation you find yourself in you may want to go to a Court that is perhaps more friendly to infringers or that is more friendly to invalidate patents. This is what is happening now even within countries like Germany.

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Q72 Stephen Phillips: Let me put it this way: were the system to come in, would you agree that the first question that you would have to consider when advising your client, when the client walks through the door, is that, given the nature of the case, it is a case that you need to start in Estonia, or the UK, or Italy? It is going to be the first thing that you are going to need to consider. Is that correct?

Dr Gassauer-Fleissner: Yes, this certainly would be one of the topics to address.

Chair: Thank you all very much indeed for coming. Thank you, Doctor, for coming and giving evidence on your own.

Dr Gassauer-Fleissner: My pleasure.

Chair: That concludes the proceedings. Thank you very much.

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Wednesday 1 February 2012

Members present:

Mr William Cash (Chair)

Mr James Clappison
Michael Connarty
Julie Elliott
Nia Griffith
Kelvin Hopkins

Chris Kelly
Sandra Osborne
Stephen Phillips
Jacob Rees-Mogg
Henry Smith

Examination of Witnesses

Witnesses: **Baroness Wilcox**, Parliamentary Under-Secretary of State for Business, Innovation and Skills, **Neil Feinson**, Director of International Policy, Intellectual Property Office, **Liz Coleman**, Divisional Director, Intellectual Property Office, and **Nicholas Fernandes**, Legal Adviser, Department for Business, Innovation and Skills, gave evidence.

Q73 Chair: Welcome, Minister. We have just one or two thoughts I would like to convey to you just as we start. There seems to be something of an assumption—and this comes from many quarters—that this is all a frightfully good idea, but I have to say to you that we took evidence the other day and that was not the view that was expressed by the expert witnesses who came in front of us, including at least one from Austria. I would just like to say that the sorts of statements that I have received regarding your statement of 30 January are that it is strong on hopes and weak on certainties; that the danger from bifurcation is grossly underestimated and what has, arguably, worked adequately in Germany will not translate to Europe as a whole; that, if the system proves not to work, we have no redress; and that however valuable and objective it may be in principle to have a unitary patent, there is too much wrong with this proposal as it stands. Then, of course, there were all the questions about the location and the impact on the United Kingdom and so on.

I just wanted to get that on the record as we start, because you will see how that sort of thing fits into the questions. I will start the questioning, and the first question I put to you is this: how much consultation has there been with stakeholders on the agreement to set up the UPC? How far would you say that their views are reflected in the current draft? So, how much consultation and how far have you taken into account their views?

Baroness Wilcox: Thank you very much indeed, Chairman, and thank you very much for laying out the question in the way that you have. Of course, as you know, our Government is very keen that we should, wherever possible, help British business to be able to get their patents and their copyrights as fast, as efficiently and as inexpensively as possible, and this looks to be a way. They have been trying to get it right, as you know, for 41 years or so and, if it is possible for us to do it, we will do it, but we will not do it without looking very carefully and listening very carefully to what the stakeholders have to say.

As the Committee knows, the Intellectual Property Office itself has a consultation group that meets regularly to discuss the patent and the negotiations, so that, when I go to Brussels or wherever it is, I have with me, ringing in my head, the things that the

stakeholders have already said that they are worried about, that they are concerned about and that they want us to fight for when we get there. You would know that we have heard what the people who have given you evidence the last time round—the lawyers, etc—have said and, in a lot of cases, we are very sympathetic to what they have said, and we make those points when we get there. So that is important for us to do and, as you will know, that was why we did not agree a deal when I was in Brussels at the Competitiveness Council on 5 December; we felt that there had not been enough discussion, and we did not feel we had a stable text of the agreement long enough to assess it properly. So there is no question that we are just trying to charge ahead and get something. It is important that it works.

Just lastly, if I may say, we have been before this Committee twice before and we are aware of its concerns as well and, therefore, when we went forward keenly to get a single patent under way, we did have a caveat on the court and how it was to be put together and how it was to be progressed, so I think that shows evidence from us that we are being very careful with this.

Q74 Chair: It certainly shows evidence that you are aware of the fact that there is deep concern. The question I would put to you is whether or not you have taken any notice at all of the evidence that has been received by us, for example last week, or indeed any evidence that you have really been listening to what they have been saying, although you have obviously heard what they have said. As far as I can judge from the evidence that we have received, everybody we have interviewed so far is against it, which represents very substantial opinion and a very significant number of people of eminence in the field, despite what you have just told us. How do you comment on that? Is it not just a case of tea and sympathy?

Baroness Wilcox: No. As I said, we have been working very carefully with the stakeholders and, once again, with the Property Office's thing. To a large extent, their evidence to the Committee has already informed our negotiating position, so we go with a negotiating position of having absorbed, taken on board and taken forward what it is they are worried

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about. We have been pursuing the option of a specialist patent court outside the ECJ structure precisely because this is what stakeholders told us that they preferred. More recently, we have seen some small improvements in the text of the agreement, and discussions on the rules of procedure have started up again after they stopped in 2009. These improvements concern in particular the transitional provisions and the opportunity to start more cases in the central division rather than a regional or local division.

You will know, of course, from having listened to their evidence, how complex this is. We are working with countries that have very different ways of progressing their courts. The Government very much hopes that the unitary patent and the Unified Patent Court, which is a priority in the Government's growth agenda, will go forward. We certainly have not come to a situation in which the people who are giving evidence to you and to us have walked away to say that we are doing absolutely nothing and it absolutely will not work. That is not the case.

Q75 Chair: One next point I would make is that, of course, there are some indications that it is a bit of a Government and an EU stitch-up. Therefore, there are these remaining concerns, but what I would like to turn to is what you said to us in a letter that you wrote in December. I will quote; it refers to the Polish presidency, and you said it "was less inclined to take on board amendments of a technical nature" in the negotiations. What exactly did you mean by that?

Baroness Wilcox: Throughout the negotiations, the delegation and the chair have been very focused on taking texts forward rather than renegotiating them. In the last six months, a draft agreement has been negotiated on an intergovernmental basis, as there is no formal EU involvement and EU legislative procedures do not apply. The basis for the draft agreement has been the text reached in 2009 before the ECJ opinion. The main amendments then taken on board were those we needed to ensure the draft agreement was compatible with EU law in response to the ECJ opinion, and only very recently was there an opportunity to make some small improvements in response to the stakeholders' concerns.

Q76 Chair: Could you explain in short how satisfactory that approach was in the light of the widespread concern among industry and patent professionals about what was being negotiated? Perhaps Mr Neil Feinson would like to answer.

Baroness Wilcox: Yes, he will.

Neil Feinson: Thank you, Chairman. I think the issue for the Polish chairmanship of these talks was very much around them wanting, for their own purposes, to drive this dossier very quickly to conclusion. They thought they could camp on a consensus that had been achieved earlier. I remember discussing with the team who were negotiating this quite hard: how do we get the Presidency to actually talk about the sorts of issues we want to talk about and the sorts of issues that stakeholders had been raising with us?

One of the issues with these sorts of negotiations is that you are in the hands of the people who frame how the negotiations proceed and, unfortunately, we were

unsuccessful in persuading the Poles to allow us to raise these issues early enough. That is why, when we got to 5 December, we just said to them, "Here are the points. We have been telling you what these points are. They are the points our stakeholders have been raising with us," and that was one of the reasons why the Minister would not agree on 5 December.

Chair: Of course, there are many people who might believe that a unified patent and a Unified Patent Court would be advantageous—in theory, at any rate—to business, and maybe that is what drives a lot of the thinking. However, it is extraordinary that so many of the people who know more about it than anybody else, who are the practitioners, take a contrary view. I also have to say that at least one witness last week, when I asked them a question, confirmed that there was a very strong element of German thrust behind all this as well in the hope that the court would end up in Germany. For practical purposes, what I am hearing, from both the Minister and from you, does seem to represent a driving force that is built in to the dynamics of the European establishment but not shared by the practitioners. I would now, on that basis, like to move on to Mr Kelvin Hopkins, who has an important question to ask.

Q77 Kelvin Hopkins: Thank you, Chair. We heard evidence that the impact assessment for a Unified Patent Court is out of date now that the EU is no longer going to fund it. Do you agree with that?

Baroness Wilcox: We will let Liz answer that one for you. I think she will give you a better answer than I will on that.

Liz Coleman: Thank you. The EU is no longer funding the court because it is not party to the agreement, but it is certainly the case that the UK was aware that there would need to be contributions from member states, and we were factoring that into our calculations. In the Government, we have always taken the view that the court should be self-funding from user fees, so we thought it was a perfectly acceptable way forward to go with member states' funding rather than it coming from the EU budget, which we contribute to anyway. The funding mechanism, then, as far as the UK is concerned, does not make a lot of difference in terms of how the money actually gets there.

Q78 Michael Connarty: I will make a comment on that first, Chairman. It does if it bankrupts small and medium enterprises that cannot afford to use this court because it is now going to be funded by them, and it seems to be a much more expensive structure than the one that exists at the moment within the UK. Someone might get an advantage out of it, but it is unlikely to be the companies that are in the field trying to seek patents, in my estimation.

I have another question: the European Council summit's statement on Monday of this week confirmed that the EU intends to reach "a final agreement on the last outstanding issue in the patent package". In the face of such opposition from stakeholders, can you explain why the only thing that seems to be outstanding is the location of the central

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division? It seems to me that is what they are referring to when they say “the last outstanding issue”. Basically, you have what you have. You have not really done much to change it, despite the fact that stakeholders are quite panic-stricken at the consequences of this coming in as it is structured at the moment. Why has it come to that? If it has to come that, let us be honest about it.

Baroness Wilcox: We will both answer your questions, if we may. First, I would like to reiterate again that it is essential that we make it possible for small and medium-sized companies to be able to get their patents through the European Community countries far less expensively and far quicker than is happening now, and the single patent seems to us to be a way forward to do that. We are mindful of the fact that the Americans can do it right across their country, that the Chinese can do it right across their country and that, in the European Union, it takes a long time, it costs a great deal, it is very complicated, and we need SMEs in particular to be able to obtain a single patent covering 25 countries at an affordable cost. That is the whole idea.

The reason why the patent court is so important for us is because so many of the systems are different across the European Union as far as the courts are concerned, so we are very keen to get that right.

Q79 Michael Connarty: You do not need to lecture me.

Baroness Wilcox: I am not lecturing you at all.

Q80 Michael Connarty: I have been on this Committee since 1998 and I think we have followed this in some detail. My question was about why it is that the only thing that seems to be outstanding is the location of the central division. First, is that what is meant in the European Council summit statement? If it is, let us be honest about it. All the rest is just waffle, quite frankly. If that is the case, why is that, when in fact it is quite clear that the only thing we understand that the practitioners are united on—we normally have many, many opinions, but united on—is opposition to this arrangement?

Neil Feinson: If I may, Minister, perhaps it would be helpful if I explained. One of the problems that has bedevilled this dossier is that there is political interest in certain high-profile issues and, underneath that, there is an awful lot of technical detail. I certainly do not recognise what was in the European Council communiqué as being the situation in the negotiations. I think it is a simplification of the situation in the negotiations. There is a negotiation where there is a question of the location of the court on the one hand and a jockeying for position and horse-trading around a lot of these technical issues on the other, and different member states have different priorities and different issues that the Presidency is looking to bring together into a solution.

I should not call them the previous Presidency, technically, but the previous Polish team tried to do that unsuccessfully on 5 December. The Danes have picked this up and have been having bilateral discussions with people trying to understand, “We know what your ask is about the location of the central

division, but what are the technical issues that are also important to you?” We have been having those discussions with the Danes, as have other countries, so I think it is a gross simplification and I do not see how the dynamic of the negotiation can be brought to a successful conclusion if that really is the case.

Q81 Michael Connarty: With the Chairman’s permission, I would like you to set out some of the other matters you are negotiating for us, so we understand where these great struggles are going on. It would be quite useful to indicate how these actually support and might solve the problems concerning the stakeholders.

Neil Feinson: For example, the issue of Articles 6 to 8: the infringement provisions, which are located in the patent regulation part of this package, and our desire for those to be removed from there to limit the opportunities for cases to go on reference to the ECJ. This is, as we understand from our stakeholders, one of their single biggest asks, because of the uncertainty and delay.

Q82 Michael Connarty: That is terrible grammar, by the way. Do not use that term “asks”. It is *The Sun* that uses words like “asks”.

Neil Feinson: I am sorry.

Michael Connarty: Requests.

Neil Feinson: Requests.

Michael Connarty: I used to be a teacher. I am deeply offended by that kind of use of the English language.

Neil Feinson: Equally, going to the point of bifurcation, which is this German approach to patent law that is allowed by the package—it is not required by the package but it is allowed—and it is something that I know deeply disturbs our stakeholders as well. One of the things there we have been working hard to do is to mitigate the impact of that. It is quite technical, but the idea is that bifurcation is where you—

Michael Connarty: I understand.

Neil Feinson: The issue is whether we can bring the cases together by changing the rules about what cases are allowed to be brought before what division of the court, so that is another thing where we made significant progress in December, but we are not completely there yet.

Michael Connarty: That has been most helpful.

Q83 Chair: What we simply do not understand—and by “understand”, I do not mean that we do not comprehend it; it is that we really do not find it acceptable—is how these negotiations can take place, given the glaring and profound concerns of those whom they will affect. How on earth is this to be regarded as a proper way to proceed? I mean this very seriously. I would like to ask you, Minister, as well, on top of that, whether in fact the Secretary of State has been directly involved, as I imagine he must have been, in these discussions with you, and what directions he specifically has given to you as to the delivery of this policy.

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Baroness Wilcox: The Secretary of State is well aware of what each and every one of his Ministers is doing within BIS.

Q84 Chair: Of course. Has he given any directions?

Baroness Wilcox: I meet with him regularly. Officials from the Intellectual Property Office usually go with me, because, as we have said before, this is a technical and difficult area. Always at the forefront of our mind, as you know, for the Ministry of BIS, is growth. At the forefront of our mind is growth for our country and for our people in our country to have the very best way of proceeding in the world, particularly within the European Community.

Q85 Chair: But the evidence that we have received is that, for the reasons that Mr Connarty gave earlier on, and indeed in relation to the evidence that we received last week, the profession and many of the practitioners and the people who know most about not only the strategic but also the technical questions are wholly opposed. In addition to that—and this is a matter of grave concern—quite apart from the lawyers and the patent agents and others, the reality is that the people for whom the whole system is meant to be a benefit and has been for hundreds of years in terms of determining issues relating to patents—the small and medium-sized businesses, where the innovation comes from—are themselves going to be faced with the question of additional costs, difficulties and other matters that have been raised and that you will have read in the previous proceedings. I ask again: how can this be a proper way to proceed, however other people may regard it as of such vast European importance that we have a Unified Patent Court of the kind that is being prescribed, wherever it is located?

Baroness Wilcox: The Unified Patent Court is going to proceed. If we do not take part in that, it will be written and drawn up in a way that we may not be happy with. We think that we should be in the room, we should be part of it, and we should be designing it. The caveat for the court, as you know, is very much based on the fact that we would like to host the central division ourselves. You made a point yourself, Chairman, previously that the Germans are very keen that the court should be with them. The French, of course, would like the court in Paris; the Dutch would like the court in Holland. I understand Italy have also decided that they would like it in Milan, but we, of course, would like it in London. We have a wonderful track record in this area. We have a brand-new building. We have a facility and we were prepared to give a very good advantage for them to bring the court here. We are very keen that we could host the central division, if not certainly be part of the group that draws up the rules around it. If we decide not to be part of it, it will go ahead. It will go ahead without us. It seems foolish for us not to be in the room.

If at the end of the day it turns out that it is not going to work, we do not think it is going to be right and we cannot agree on the court, then, of course, that will be something completely different, but you can be sure that the one thing the Department for Business is not going to be doing is wanting to make small and medium-sized businesses disadvantaged. Our

intellectual property organisation here was the first to come out with a fast-track green patent especially for small and medium-sized businesses. As you would know, we have had the Hargreaves report on the future of intellectual property in this country to make sure that we are on the front foot. I do not really want to go and waste my time spending hours and hours listening to negotiations if I do not honestly think that it is going to be right and proper for our country. Also, I have to come back and face you, Chairman, as to what it is I am doing, so it is very important to me that your Committee is confident that we are listening to the people who are going to be involved in all of this, and I will say again that all the people you have seen to give you evidence are part of the group that we consult with every step of the way.

Q86 Chair: No doubt we shall find out by the end of this session of evidence what we think about the answers we have received, but one last question before we move on to the substance of the issues, having dealt largely with process so far, is: in a nutshell, given what we have heard from all quarters, is this a done deal or is there scope for some amendment?

Baroness Wilcox: There is scope all the way along for amendment. I find it very difficult to work in this way in the Competitiveness Council—I have had to get used to it—but it does seem that, if you keep talking and if you stay in the room long enough, you are likely to get the things that will help the process forward. We are fortunate that there are countries that feel as we do and, therefore, are prepared to support us. That does make things very much easier, and now that we have the new Presidency—the Danish Presidency—I am going over this afternoon to the Competitiveness Council to talk about the digital single market. I am going to be doing work for David Willetts, because he cannot go, and I am going to be doing work for Edward Davey, who is also a Minister with us, because he cannot go. We try between us not to miss any of these meetings at all.

Chair: Thank you very much. Moving to the substance of the questions, I invite Stephen Phillips to ask a few questions.

Q87 Stephen Phillips: Thank you, Chairman. Minister, just before we move on—this is a question either for you or for Mr Feinson—I just want to go back to the European Council summit statement on Monday. When they referred to “final agreement on the last outstanding issue” in the summit statement, is it your evidence to this Committee that, in fact, that statement was untrue, in that there is more than one outstanding issue that is currently being negotiated?

Neil Feinson: I would simply like to say that I think it is a simplification. These are complex negotiations.

Q88 Stephen Phillips: You may refer to it as a simplification, but actually, it is very clear: either there is one issue that is outstanding or there isn't. Which is it?

Neil Feinson: There is more than one issue outstanding. There is one very big issue, which is the

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location, and then there are a lot of technical issues that are outstanding.

Q89 Stephen Phillips: So, in fact, the statement is either untrue or incorrect. Do you agree?

Neil Feinson: As I say, I think it is a simplification, yes.

Q90 Stephen Phillips: We can form our own view, no doubt. Minister, you have made it very clear that the Department's ethos or rationale is to help promote British business, and you referred earlier to the need to help SMEs and other companies get their patents as inexpensively as possible and, no doubt, you would add to protect them as inexpensively as possible. How does it assist SMEs or any other British company to have their intellectual property rights protected as inexpensively as possible if the possibility of bifurcation exists, as it does under this dossier?

Baroness Wilcox: We have answered the bifurcation by letter to you, of course. The SMEs, we think, will be able to obtain a single patent right covering 25 countries at an affordable cost. That is the most important thing for them. The current European patent system makes obtaining Europe-wide protection, as I have already said, prohibitively expensive. How can we say the system will be affordable for SMEs? There is a very strong commitment from all involved in negotiations that the patent and court system should be affordable for SMEs.

Q91 Stephen Phillips: Let us come back to the question of affordability, but let us take bifurcation in terms of the Department's aims and objectives to protect British business and SMEs at the moment. Imagine that a patent is challenged and the case is bifurcated under this regime. An injunction could be obtained restraining a British business, for example, from a court in Estonia, which would prevent a British factory from infringing someone's intellectual property rights. That may or may not be a correct injunction and, some years down the line, the central division might decide that the patent had always been invalid but, by that stage, the business has been closed down in the UK. How is that helping British SMEs?

Baroness Wilcox: The draft agreement does provide options for the local divisions and central division to choose how to treat cases when infringement and validity are both in dispute, but I wonder if Liz would like to follow up on that.

Liz Coleman: Thank you. As the Minister has said, options are provided to the panel in a particular case. At the moment, if I understand the thinking correctly, an SME could have its business shut down in Germany because of the way that German courts currently bifurcate their cases between infringement and validity. That is not to say that the German practice will have to prevail throughout the whole of the new court, and one of the ways that we hope the system will work to the benefit of companies is that there is still a lot of work to do on making sure that the rules of procedure and the practice of the court are working in such a way that SMEs will be better off, because this is one of the prime objectives of the agreement, and contracting parties will find it very

difficult to show that they have lived up to these objectives if those arrangements do not work.

Q92 Stephen Phillips: You will forgive me, Ms Coleman, because this is the triumph of hope over expectation. You hope it might work in this way—you do not know at all.

Liz Coleman: We do not know at all, because the work that has to be done in bringing the practice of the different divisions together has not yet started. The judges have not been trained and the rules of procedure have yet to be agreed, so there is still some work to do.

Q93 Stephen Phillips: Do you and, more importantly, the Minister at least agree with me that there is the possibility, whatever those rules ultimately emerge as being, that someone who says their intellectual property rights have been infringed can quite wrongly go and shut down a British business by going to a regional court in Estonia or some other jurisdiction, as a result of which that business will then shut down, British jobs will be lost, and it will be some years before the question of validity is considered and that is ruled as being wrong?

Neil Feinson: There are two things here: there is bifurcation, which is where the infringement and the validity are dealt with separately.

Stephen Phillips: Correct.

Neil Feinson: Then there is the timing issue. Typically in Germany today, the problem is that you do not get a decision on the validity until too late. You have your injunction and then the other half, as you say, is two or three years down the line. You might find that it was fine but it is too late. The point Liz was making was one that we have been quite insistent on from the outset: before we sign on the dotted line, we need to know what the rules of procedure are going to be, because they are so important. In particular, as I said earlier, it is not a requirement to bifurcate; there is a facility to bifurcate.

Q94 Stephen Phillips: Can I just pause you there? There is a facility to bifurcate.

Neil Feinson: Yes.

Q95 Stephen Phillips: The evidence that you are giving seems to me to come to this: the Department's position in negotiations, and the Government's position in negotiations, is that you are prepared to purchase a Unified Patent Court at the potential cost of exposing British business to the same inefficiencies as presently exist in bifurcated jurisdictions like Germany. Is that right?

Neil Feinson: No. What I was trying to explain was that we need to get the rules of procedure right so that you do not get the delay. I admit, if we had our way, we would not allow for bifurcation in this agreement.

Q96 Stephen Phillips: Bifurcation ought to be a line in the sand for the British Government, shouldn't it?

Neil Feinson: It was a decision that was made a long time ago in order to keep these negotiations going.

Q97 Stephen Phillips: I think, on that basis, the answer to my original question is that you are prepared to, as it were, sacrifice British business by agreeing to the potential for a bifurcation regime purely to get a UPC.

Neil Feinson: Respectfully, I disagree. The point about holding out on rules of procedure is so that, through the rules of procedure, we can ensure that there are rules governing the behaviour of the judges on the various panels. Where there is a panel with one case and a panel with another case, how does the court as a whole handle the timing of those two cases and the treatment of those two cases? People thought we were being darn awkward when we made this point and said we are not prepared to go forward on this and sign on any dotted line until we see a pretty-near final version of the rules of procedure.

Q98 Stephen Phillips: This is all very well, but the trouble is that this Committee is faced with the situation where there was a statement from the summit earlier in the week that there is only one outstanding issue, and that that issue is the location of the central division of the court, but that is untrue—yes or no?

Baroness Wilcox: It is a broad statement.

Q99 Stephen Phillips: Is it untrue—yes or no?

Baroness Wilcox: It is a broad statement.

Q100 Stephen Phillips: We will form our own views, no doubt, about your reluctance to answer the question. Helping British business: obviously, there is the potential for the European Court of Justice, or Court of Justice, to have proceedings before it in relation to patent litigation if the UPC is created. Can we agree on that?

Neil Feinson: To the extent that there is any EU element to the package, yes, there must be.

Q101 Stephen Phillips: There is no experience whatsoever—certainly not specialist experience—in the Court of Justice in relation to patent law, is there?

Liz Coleman: There is no specialist experience in relation to patent law. The Court of Justice does occasionally have to deal with questions that bear on patent law.

Q102 Stephen Phillips: How does it serve to help British business and British SMEs to have the potential for extended and extremely expensive litigation in the Court of Justice in relation to patent law before judges who have no experience of patent law?

Liz Coleman: This comes back to the question of Articles 6 to 8 in the regulation. If you have those provisions in EU law, then, of course, as I am sure people know better than I do, there must be a possibility of preliminary references for the interpretation of those provisions. That is not the same as asking the court to interpret a patent, which is what we would expect to do in an infringement or validity dispute.

Q103 Stephen Phillips: All practitioners have said that they do not want the ECJ involved in this at all.

Do you have any solutions that you are proposing in the negotiations to deal with that?

Liz Coleman: This is why Articles 6 to 8 have been the key issues in the negotiations that the Minister has been having with her counterparts.

Q104 Stephen Phillips: Minister, are you aware of the statement of Professor Sir Robin Jacob in his 2 November opinion, where he said, “I know of no one in favour of the involvement of the Court of Justice in patent litigation,” and do you agree with it?

Baroness Wilcox: I have had meetings with Robin Jacob and I have heard his views. Obviously, he is a very distinguished lawyer.

Q105 Stephen Phillips: He is probably the foremost authority on patent law in the UK, isn't he?

Baroness Wilcox: Yes, indeed, and he is very keen to be engaged in this, and has made it very clear to me too that he would very much like to be engaged as we go forward, so that does not bear upon him saying, “Never, never, never will I ever, ever, ever.” He seems to be quite engaged by the whole thing. It is a great opportunity. We are not going to sign off things that would disadvantage small and medium-sized businesses, or even large businesses. The idea is for us to see if there is a mechanism available that will make it possible for us to better trade in the world. As we are part of the European Community, there is an opportunity here to try to get the system that we have better.

Q106 Stephen Phillips: What are the alternatives, in terms of Articles 6 to 8, to the jurisdiction of the Court of Justice?

Baroness Wilcox: There are two main alternatives to the proposed arrangements for dealing with the questions of EU law under the Unified Patent Court and the patent regulation. One of these is not to set up the specialist court, but instead to have all patent disputes heard by the ECJ. This would need a different legal instrument under Article 262 of the EU Treaty, because the ECJ has no current powers to hear such disputes. This was an attractive option for some member states, but our stakeholders were strongly against it. The other and simpler option would be to remove, as we have said, Articles 6 to 8 from the patent regulation and rely on corresponding provisions in the court agreement. These would then not be part of the EU instrument, and questions of interpretation would not need to be referred to the ECJ.

Q107 Stephen Phillips: As for the Government's position, do I rightly understand that, if Articles 6 to 8 are not removed, the Government will not be signing up to the UPC?

Baroness Wilcox: We would very much like to see Articles 6 to 8 removed, but I was glad to hear that witnesses still think it is important for us to be part of the agreement. They have not said, “If you do not sign it, go away and never, never go back.” We would very much like it signed. It is the way we would like to go, but if it is not the way we go, we are told by our witnesses that they still think we should continue forward.

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Q108 Stephen Phillips: Even with Articles 6 to 8 in the agreement?

Baroness Wilcox: We will have to see how it proceeds.

Nicholas Fernandes: If I may, Minister, to clarify, we have heard the case for removal of 6 to 8 from the patent lawyers. It is one we could subscribe to, but we have not really heard the other arguments, and one concern is, of course, that whatever legal base the unified patent regulation is made under actually supports the measure. This is likely to be challenged, not only, as we know, by member states that are currently challenging enhanced co-operation, but by a defendant saying: "You have concluded this instrument. It does not give me any rights. Where are the rights? You have put it away in some other corner. I cannot avail of these rights before the European Court of Justice." That counterbalances the arguments for excluding 6 to 8. We have to understand the force of those arguments. We would take the risk and say, "Yes, you can conclude a unified patent regulation just on the basis of its unitary effect," but convincing others of that is an uphill task.

Q109 Stephen Phillips: Thank you very much, Mr Fernandes. I have two final points. Again, returning to doing everything the Department can to help British business, do you agree that, at least in its current negotiated state, the potential establishment of the UPC is, essentially, a charter for forum-shopping?

Liz Coleman: I heard the witnesses say the other day they thought forum-shopping was not a bad thing, because it increased competition between different divisions. I think there is a question about whether competition is a good thing between different divisions of the same court, and one thing that we would be concerned about would be if there was forum-shopping because some divisions were seen as being more favourable to one set of parties than another.

Q110 Stephen Phillips: I am just going to pause you there, Ms Coleman, and I am going to ask the Minister, because this is precisely the point, isn't it? At the moment, we do not know who the judges are and we do not know what the quality is going to be. Someone who alleges that their intellectual property rights have been infringed can, essentially, sue anywhere in any member state that is going to be a party to this international agreement. In addition to that, there are advantages to be extracted from the fact that some courts may bifurcate and others will not. Can I just ask the Minister? I return to my question: isn't this just a charter for forum-shopping? There is a follow-on question, which is: if it is, how on earth is that in the interests of British business?

Baroness Wilcox: Genuine competition on a fair basis can lead to efficiency and improvements, and I think you would agree with that.

Q111 Stephen Phillips: Between courts?

Baroness Wilcox: We would be concerned about users shopping around for the right decision because one court of one division is seen to be more sympathetic to the patent holder, and this would affect the other

parties involved and, indeed, the balance of the whole system.

Q112 Stephen Phillips: Just pause there: if you are concerned about it, what have you done in the negotiations to ensure that the possibility of forum-shopping is minimised?

Nicholas Fernandes: One of the instruments that govern this whole area is, of course, the Brussels regulation on the enforcement and recognition of judgments.

Q113 Stephen Phillips: Do you mean Council Regulation 44/2001?

Nicholas Fernandes: That is right. That does lay down certain rules about where people can bring actions, so there is a certain amount of forum-shopping in the system already. Part of the exercise of this would be to amend that regulation in tandem with the amendments to the draft.

Q114 Stephen Phillips: Can I just ask, Mr Fernandes: how is Council Regulation 44/2001, which is concerned with civil jurisdiction within the European Union, relevant to the UPC, which is going to be set up and which is outside the institutions of the European Union?

Nicholas Fernandes: It currently grants exclusive jurisdiction to national courts to deal with patent matters, including European patent matters. That provision will need to be amended to take account of developments with the Unified Patent Court.

Q115 Stephen Phillips: Is this another area where the Department has not really thought about what the implications are or, indeed, listened to the professions and those who are engaged in patent law and litigation?

Nicholas Fernandes: I am sure we have taken on representations, but there is another Department on the lead, with whom we work, on Brussels Convention and Brussels regulation issues, but this is a debate that still has to take place, and that will take place, as I understand it, in tandem with the developments of the Unified Patent Court.

Liz Coleman: Can I come back on that, please? The arrangements for jurisdiction between the divisions are, of course, nothing to do with the Brussels regulation, because it does not apply within the court. I think you would agree with that. The basic rules, though, for jurisdiction between the divisions of the Court at local or regional level are very similar to the Brussels rules, because you either have the place where the infringement occurred or the place where the defendant is located.

Q116 Stephen Phillips: Just pausing there, where the infringement occurred, if you are marketing a product across the entirety of the 24 countries that look like they are going to sign up to this, it could be any one of those courts, couldn't it?

Liz Coleman: That would be the case at the moment as well.

Q117 Stephen Phillips: So a British company could be dragged to litigate in a bifurcation jurisdiction, notwithstanding that there may not currently be jurisdiction at the moment, because exclusive jurisdiction would be conferred on the English courts.

Liz Coleman: But if they were infringing in that jurisdiction, then, of course, they could be taken to that jurisdiction now.

Q118 Stephen Phillips: But with this essential difference: that court, in that state, can now issue an injunction that runs across the entirety of Europe—correct?

Liz Coleman: I think we have to look at it from both sides.

Q119 Michael Connarty: The answer is yes.

Liz Coleman: Sorry.

Stephen Phillips: Mr Connarty is suggesting that the answer is yes.

Michael Connarty: You just answer the question and then do your qualification, but you qualify everything without answering. It is very irritating. All of you have been doing it. You never answer questions straightforwardly. It is shocking. Just give us answers. We are not here as part of the negotiating team; we are here as a Committee of the House.

Chair: Could we have an answer to the question, please?

Michael Connarty: I think Stephen's point was very clear and he deserved an answer.

Liz Coleman: He was very clear and I would probably have to say I do not know.

Q120 Michael Connarty: You do not know.

Liz Coleman: Is that an acceptable answer?

Chair: Ms Coleman, if you could answer the question, please.

Liz Coleman: Sorry.

Q121 Stephen Phillips: With this essential difference, was the question: that a British company is now going to get dragged off to, let us say, Estonia; it might do at the moment, because the infringement might have occurred in Estonia. Estonia may or may not be a bifurcation jurisdiction—I do not know. The Estonian court issues an injunction. That injunction, without more—without the necessity for any proceedings under Council Regulation 44/2001 or any proceedings in the English courts—now runs across the entirety of Europe, and a British factory somewhere in Britain is shut down as a result of the decision of an Estonian court to which a British company has been dragged because of the creation of this Unified Patent Court. You answer that: yes or no?

Liz Coleman: Can I answer “no”?

Stephen Phillips: Right.

Liz Coleman: The point I would pick up there is that it is not an Estonian court. It is a local division of the unified court.

Q122 Stephen Phillips: Forgive me: that is simply caviling. By Estonian court, I meant a court sitting in Estonia with an Estonian patent judge in charge.

Baroness Wilcox: That is the whole idea, isn't it? The whole idea of us wanting to get the court right is that, wherever, therefore, the court is sitting in any of those countries, they will be playing by the same rules. This is the whole idea. The whole idea of us putting in the caveat to us wanting to have a single patent to get the Court of Justice right is because it is so important for us to do so.

If I may say so—and I hope you will feel that this is not by way of a question to you but by affirmation to try to give you some comfort—the whole idea of us being difficult and awkward and spending an awful lot of time is because we are there arguing the points that have been point to you by the lawyers and by the attorneys. Of course we have. It would be foolish for us to waste our time, the Government's time and the Committee's time going naively into a negotiation that is of no use to Great Britain whatsoever. But if they are going to do this and they are going to do it without us, what you are laying out is exactly how it might be. What we would like to see is that we have the input in the very beginning to make sure that that court, wherever it is sitting, is going to be playing by the same rules.

If I may say, I have sat on three different European Select Committees in the House of Lords and I have been a trader most of my life, particularly in the fishing industry, and if you want to know what the European Community and the fishing industry think of each other, you can imagine what my reaction is to that.

Stephen Phillips: Forgive me, Minister, it has been a very long answer so far and I do not want to cut across you, but—

Baroness Wilcox: I think, if you would be gracious, you would let me just finish this point.

Stephen Phillips: Go on.

Baroness Wilcox: The thing that I carry with me into the negotiations is always the fact that it is how you impose these things—how these things are translated. We want to make sure that it is translated the same every single time, and that we can be confident that, wherever we are dealing in the European Union, that small and medium-sized company will not have any fear that they are going to come up against a system that they do not understand. It is so important that people should be able to understand the system.

Q123 Stephen Phillips: I have three points that I think it is quite important for you to deal with, Minister. Point one: you have already indicated, essentially, that this is an ongoing negotiation and the British Government does not have any lines in the sand, whereas I think it is perfectly clear to this Committee that it should have some lines in the sand and that we should not be signing up to this if there are certain assurances that are not received.

Point two: if you speak to any lawyer practising anywhere in this country with regard to the suggestion that courts across Europe operate to the same standards in this or any other area, you would receive the answer that they do not, so that, again, is the triumph of hope over expectation, and the Department needs to deal with that.

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Point three, if I may, is that none of these points that are of concern to the profession and to patent professionals across this country, which is really the procedure point the Chairman was putting to you at the outset, appear to have been grappled with by your officials in briefing you for the purposes of these negotiations, and that has become perfectly clear during the course of your evidence and the evidence of the other witnesses to the Committee. Those are three points; if you want to respond to them, please do.

Baroness Wilcox: I think the word I was trying to look for earlier, just to finish, was that enforcement is a problem. That is the problem that I have had to grapple with in the past. Yes, I would agree, of course, that the systems are all different. I would agree with all of this, but here is an opportunity for us to see if we can improve things for ourselves within the European Community. We are part of the European Community.

Q124 Chair: I think it is called the European Union, if I may.

Baroness Wilcox: The European Union. We are part of it, and here is an opportunity for us to see if we can come closer to a way of proceeding that will benefit our people.

Q125 Chair: Could I just say at this juncture that we have just received a letter—I must say I was rather disturbed to receive it at such late notice—that

suggests you have to get a plane to Copenhagen, and that you really would not be able to catch that plane unless you left this evidence session at no later than 4.20. It is my feeling that, in the light of the way this evidence session is going, we are not going to get through the rest of the questions that we want to ask you. I think, in the circumstances, so that it gives us an opportunity to reflect on the answers that we received as well, we should adjourn this session and invite you to come back on a later occasion, because we are simply not going to get through the questions—we have several to go. Therefore, in the circumstances, I am going to propose to adjourn this session and give you an opportunity to fly to Copenhagen and to make what you will of the meetings that you are attending on this matter and on behalf of David Willetts and all the other Ministers who, for one reason or another, cannot go there. I think, on that note, I will adjourn the session now and invite you to come back as soon as reasonably possible.

Baroness Wilcox: Is that an invitation, Chairman, or is that a statement?

Chair: It is a statement in the form of an invitation, because we have no option; otherwise, you will not get your plane and we will not get any further satisfactory answers to the questions that we ask in the next seven minutes. Thank you very much.

Baroness Wilcox: Thank you.

Not to be published in full or part, in any form before
10.01 am on Thursday 3 May 2012
EMERGENCY ADVANCE COPY:

Wednesday 7 March 2012

Members present:

Mr William Cash (Chair)

Mr James Clappison
Michael Connarty
Julie Elliott
Nia Griffith
Kelvin Hopkins

Chris Kelly
Stephen Phillips
Jacob Rees-Mogg
Henry Smith

Examination of Witnesses

Witnesses: **Baroness Wilcox**, Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills, **Neil Feinson**, Director of International Policy, Intellectual Property Office, **Liz Coleman**, Divisional Director, Intellectual Property Office and **Nicholas Fernandes**, Legal Adviser, Department for Business, Innovation and Skills, gave evidence.

Q126 Chair: Welcome back, Minister. We resume taking evidence from you on the proposed EU Unitary Patent and the Unified Patent Court since the interruption of our last evidence session on 1 February. We might go over a little of the ground covered on the last occasion, particularly if there is anything on which you want to update us, because things might have happened that you are aware of and it might be helpful if you and/or your advisors gave us an update. In the main though, our questions will focus on topics we could not cover on the last occasion because of the time.

One of the topics on which we questioned you and your officials was what was meant in the European Council Summit Meeting of 30 January by the EU intending to reach “A final agreement on the last outstanding issue in the patent package”. The answers given by Mr Feinson were that he did not “recognise what was in the European Council Communiqué as being in the situation in the negotiations” and that it was “a simplification”. Minister, you went on to say that “there is scope all the way along for amendment...it does seem to me that, if you keep talking and if you stay in the room long enough, you are likely to get things that will help the process forward”.

With that in mind, I am now going to ask the first question as follows: given the level of stakeholder criticism of the Draft Agreement and Articles 6 to 8 of the Draft Unitary Patent regulation, what success has the Government had in seeking amendments to either of these proposals since we last met? So, what progress has there been since we last met?

Baroness Wilcox: Thank you very much, Chairman, for letting us come back again to see if we can answer further questions on what I think we would all agree is a fairly complicated subject, but one that is important to us all. We have continued talking with the Danes—as you will remember from the last Committee meeting, when we left I was about to go to Copenhagen at that time. That was the first opportunity that I had had under the new Danish Presidency to speak to the Danes and to our European partners about the patent and the court in an attempt to resolve the issues still outstanding. We have also been supporting the work on the rules of procedure by the group of experts that has started up again. That is

about as far as we have got so far; we are in the hands of the Danish Presidency for them to take forward matters as they see fit. So, at the moment that is where we are.

Q127 Chair: Was the European Council’s statement right then, that this is effectively a done deal, except of course for the question of the location of the central division?

Neil Feinson: I think there are those at a senior level in Europe who would wish that it were a done deal and who do not want to concern themselves with the technical issues, of which our stakeholders and you have highlighted the importance. They would much rather that we could come to a quick deal and claim a victory collectively in Europe. What we have been saying is, “No, we didn’t like what happened on 5 December; we didn’t agree with the process”. There are issues around both the location of the court and how the court is designed that we think need to be settled first.

Q128 Jacob Rees-Mogg: Turning to the jurisdiction of the EU courts, one alternative that has been suggested to us in our evidence would be for Articles 6 to 8 to be interpreted by the Court of Appeal and central division of the Unified Patent Court where the judges would have specialist expertise in patent law, unlike the Court of Justice. I would be grateful for your view.

Nicholas Fernandes: That is the intention, insofar as the issues will go before the courts of first instance, and before the Court of Appeal of the Unified Patent Court. The only issues that would go to the European Court of Justice would be any matters of interpretation arising from unified patent regulation. The intention is matters of substantive patent law, and this of course depends on what happens to Articles 6 to 8, should remain with the Unified Patent Court.

Q129 Jacob Rees-Mogg: But there is a risk that it could end up with the European Court of Justice, which does not have any expertise in these matters. I think that is the worry of the evidence that we have received.

Nicholas Fernandes: The risk arises from Articles 6 to 8, which deal with infringement of patents, but it is

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only where there are matters of interpretation that arise in relation to those articles. It may well be that matters are so clear that they do not need to be referred to the Court of Justice. In particular, in this case, we have a multinational court who will be looking at patent practices across Europe. They may decide that an issue of interpretation is very clear because all member states do it in the same way, in which case there is no need to refer. Therefore, the referrals to the court may not be as many as some have suggested.

Q130 Jacob Rees-Mogg: That sounds to me quite optimistic because usually, if litigants have the opportunity to appeal to a further court, they get quite keen to take it if their case has gone against them. Relying on, “Well, it may be all right,” is not necessarily the best way of agreeing a deal.

Neil Feinson: Nicholas, if I may interject here, I think our position is that we totally recognise that there is a potential problem if a large amount of substantive EU law is embedded in the regulations because, as you suggest, that could lead to preliminary references to the ECJ. To the best of our abilities, we are trying to make sure that the substantive provisions around the definition of an infringement of a patent are not in the regulation so that those points are not points of EU law that have to be taken to the ECJ. We cannot escape the ECJ’s jurisdiction completely, but we are trying to ensure that it is very much only the setting up of the framework that feeds into the ECJ, and that the substance of the litigation is decided by the UPC and its Appeal Court.

Baroness Wilcox: These are the reasons why we are very happy for it to take as long as is necessary for us to get these things clear. There is no way that we want to sign Britain up to anything that is going to be worse than that which we have. The idea is to have something that is much better for us to work with. We think, particularly as our law tends to differ from theirs, this is an opportunity for the court and us to be able to get in there and make sure that we can actually write the rules if possible. That is what we are really aiming for, so at every turn we are looking to push just that little further. Everyone would like us to sign nice and quickly, because the British are being difficult about making sure that, as with questions like that, we can get as good a deal as possible out of it.

Q131 Kelvin Hopkins: This question follows on. How likely do you think it is that there will be a lot of references to the Court of Justice by the UPC, or will the doctrine of *acte clair* make them less frequent?

Baroness Wilcox: The effect of *acte clair* doctrine would be, we are hoping, that it would potentially reduce the number of references to the ECJ, but I will get Nicholas to give you better detail than I can.

Nicholas Fernandes: Yes, there is a discretion on the court of first instance as to whether to refer a matter to the Court of Justice. The doctrine of *acte clair* is a principle that, where provision is clear, it does not need to be interpreted; therefore, no reference is required. As regards the Court of Appeal, there is an obligation, as it’s a court of final jurisdiction or final

appeal, but the doctrine of *acte clair* could apply in that case as well. There are certain conditions or guidance that have been laid down by the court as to how *acte clair* applies, and this was set out in the case of *CILFIT* in 1982: the referring court must be convinced that the answer would be obvious to other relevant courts and the European Court of Justice. One factor here, as I alluded to earlier, is that this is a multinational court; it will need to have regard to national as well as European law. These are parts of the sources of law that the Draft Agreement requires it to consider. Therefore, it may well be that certain cases are very clear, which then need not be referred to the court for interpretation.

Q132 Kelvin Hopkins: Just to clarify that, do you think there will be a lot of references to the Court of Justice in spite of the doctrine of *acte clair* being applied?

Nicholas Fernandes: It would be difficult to predict, because the references could only be on issues of interpretation of the unified patent regulation. So if there isn’t a great deal of substantive law in the unified patent regulation, then matters of interpretation may not arise.

Q133 Kelvin Hopkins: So it is not absolutely clear yet.

Nicholas Fernandes: No.

Baroness Wilcox: The longer we talk, the more we ask and the more times we return as we do, the clearer we hope we can get every one of these points. It is complicated and it is difficult; we just have to keep reminding ourselves that it is worth trying for.

Q134 Stephen Phillips: We have taken quite a lot of evidence from the professions about the existing decisions in relation to jurisdiction that have been forthcoming from the European courts and the way in which they conflict. Not to put too fine a point on it, the current jurisdictional position—at least as a matter of authority—is something of a Horlicks. Mr Fernandes, how would you summarise the impact of the existing decisions of the EU courts on trade mark litigation?

Nicholas Fernandes: The area of trade mark litigation is different from the area we are looking at in patent law, because with the trade mark litigation a lot of law has been harmonised through the Trade Marks Directive and the Community Trade Mark Regulation. Patent law, on the other hand, has been largely untouched by European legislation, so the opportunities for reference are less. Does that answer your question?

Stephen Phillips: It does.

Q135 Nia Griffith: Could I turn now to the structure of the Unified Patent Court? How many countries have actually indicated whether they will actually have local and regional divisions?

Baroness Wilcox: We are still negotiating on this issue. We have no idea at the moment.

Q136 Nia Griffith: We have heard that Germany is already making moves and is suggesting that it would

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have some eight or so courts. You cannot confirm that, can you?

Baroness Wilcox: No.

Q137 Nia Griffith: Could you actually explain to us the interrelationship between the jurisdiction of the local, the regional and the central divisions?

Baroness Wilcox: Sorry, we have a lot of pages here; we are just going to make sure that we are absolutely right.

Neil Feinson: Minister, if I may just interject here, the idea is that at first instance there will be a combination of local and/or regional divisions and the central division of the court. A local division would be the division of a particular member state who decided to establish one, or member states may club together and set up a regional division. Then the Appeal Court will stand independent from this.

Q138 Nia Griffith: As yet we have no news as to who is planning what in terms of those different levels.

Neil Feinson: We hear gossip where people speculate about whether there would be an X or Y regional court and whether they would club together. We know that Germany wants to have probably more than one local division, but as I say this is tittle-tattle rather than people actually putting bids on the table.

Baroness Wilcox: Yes. The general rule is that the infringement cases start in the local or regional division, and validity or revocations cases will start at the central division, and there will of course also be an Appeal Court. At the moment, the court, where the court is and what is happening about the court is the great question that we are still waiting to answer. You can imagine that we are hoping very much that the central court will be London; and Paris is hoping that it will be Paris; and Munich is hoping that it will be Munich. This will make a decision. I do not wish to diverge from what you have asked me, but just to remind you again, the caveat we have put on coming together to make a single patent for us was to make sure that that court and the rules it was ruled by would be the laws that would apply to every court wherever it was within the whole of the 25. For us, that is a very important point that we will not have people using different systems in different places; it will be the same rules wherever the courts are. I hope that is some help.

Q139 Michael Connarty: Can I ask a simple question? I think the naïve question we have covered, and those who are listening will be users rather than the practitioners. Is there any intention—it says here local, regional and central divisions—that local or regional will have in any way delegated powers, or is it going to be a case of going to one court, not liking the result, going to the court above to appeal, not liking that, then going to the central division and the final Appeal Court? Is there any sense that there is a scale at which judgment can be made, so you do not end up with smaller elements of patents going from court to court to court—

Baroness Wilcox: Yes, exactly. I'll give you a direct answer.

Michael Connarty:—and making a fortune for the lawyers and confusion for the people who actually want to register patents.

Baroness Wilcox: We're with you on this.

Liz Coleman: Yes, we would certainly agree with you on this. If I may, Minister, there are only two levels, so you either go to the court at the first instance, or, if you do not like that decision, you have to appeal. At the moment, the local and regional divisions will be the first place that you go for infringement cases; if you want to revoke a patent you will go to the central division. They have slightly different powers, but there should not be a whole escalating spiral of decision making.

Michael Connarty: I'm sure that will bring a great deal of relief to anyone who ever wants to register a patent.

Q140 Nia Griffith: Can you tell us a little bit about the language regime of the different levels of the Patent Court?

Baroness Wilcox: Yes. In the central division and in the Court of Appeal, the language will be the language of the patent, which as you know is English, French and German. You will also know that the Spanish have decided that that is why they do not want to join at the moment; they feel it should be Spanish.

Nia Griffith: What about the Italians?

Baroness Wilcox: The Italians said they think they would like to join now, so it looks as though they are in. The regional and local divisions will work in the local language of the division, or potentially more than one language in a regional division. That does at least give us some comfort.

Q141 Mr Clappison: Could I ask about bifurcation, which is the cause of a lot of concern, it seems, with professionals in the field? Perhaps I could ask you, Mr Feinson, in the light of what you said at the previous session—you said, apparently, “I admit if we had our way we would not allow for bifurcation in this agreement”—could you tell us why the Government does not want bifurcation and what it is doing about it?

Neil Feinson: One of the drawbacks we see with bifurcation is an efficiency point, which is that you are running two actions instead of one. Perhaps more importantly, though, is the situation—particularly the way bifurcation operates in Germany—where an infringement action can be brought and a decision quickly reached, but the matching validity action, if the person feels that the patent they are accused of infringing actually is not worth the paper it is printed on, could take several years. The effect is you are knocked out of business, or that line of your business, for several years until you can go to a separate, slower court to get the right sort of decision saying, “Actually, you haven't infringed that patent because that patent isn't valid in the way that was alleged”.

Mr Clappison: This is what experts have told us, particularly Henry Carr, who is the Chairman of the Patent Bar, and he said that if that happens as in your words, people will go for the infringement action first, and, by the time the validity action is heard, the factory or business may well be closed down, because

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the hearing will take place some years later. What is the Government doing about it?

Baroness Wilcox: We are negotiating. We would obviously prefer not to have this; we don't like it, but the Germans love it.

Q142 Mr Clappison: Are we in a position to be able to stop it?

Baroness Wilcox: I will move to Liz, because she should be answering this now.

Liz Coleman: First of all, as the agreement is written, bifurcation is only an option for a panel, so we do not expect it to happen in every case. One of the ways that we hope to mitigate the result that we were talking about with regard to what happens in Germany at the moment, would be to address the timing issue, so that the two arms of the case should come together in timing; you should not be able to have a decision on infringement without the decision on validity being speeded up so that the two come together. We are hoping that that can be addressed through the rules of procedure.

Q143 Mr Clappison: Would you agree that as matters stand it would seem to follow that, if you were a patentee trying to enforce your patent, it would be obvious that you would want to bring your case in Germany, for example, which has made a practice of bifurcation?

Liz Coleman: At the moment Germany does, but of course, under the Unified Patent Court, the panels will be international panels, and they will be following a common set of rules. Therefore, we do not necessarily make the assumption that they will do exactly the same as they do at the moment.

Baroness Wilcox: We are therefore working towards the idea, if it has to be separated—the point that you make that we have one at this speed and one at that speed—that we try and see if we can get them to report levelly.

Q144 Mr Clappison: I think the question reflects a lot of concern we can see from practitioners in the field and business as well.

Baroness Wilcox: Yes, these are concerns, which we will work on now. All the people that you have spoken to, or the people that you are referring to, I think are on the Intellectual Property Office panel of advisors, so we are very aware of the worries that they have, and are working to try to achieve what they want, or as near as we can get.

Q145 Stephen Phillips: You told us what you are doing in terms of negotiation to try to mitigate the effects of bifurcation. Is it fair then to assume that, as far as the Government is concerned, this is not a line in the sand that may not be crossed, but that you are prepared to live with bifurcation if there can be some mitigation that you hope will work around it?

Baroness Wilcox: I don't think I'd like to say that at this stage.

Stephen Phillips: Is it a line in the sand or isn't it?

Baroness Wilcox: I don't think I'd like to say that at this stage.

Stephen Phillips: The Government must have a view one way or the other on this.

Baroness Wilcox: We are negotiating at the moment and, as you will know, Mr Phillips, negotiations change as they go along. There is no line in the sand.

Q146 Stephen Phillips: Experience dictates that any reform, in any area of civil procedure, designed to speed up matters such as infringement proceedings, or indeed anything else, never really works. Is that really the only mitigation that the Government is able to suggest if bifurcation goes ahead?

Baroness Wilcox: I think that we are negotiating, and as the negotiations go forward so we will reflect upon where we are.

Neil Feinson: Minister, if I may add, we did actually ask our stakeholders this very question—

Baroness Wilcox: We did.

Neil Feinson:—about what their red lines are, particularly on Articles 6 to 8, bifurcation and a London seat. To a man and a woman they said, "Well, we can't actually give you that answer because this is a package. The issues are interrelated and we need to see the balance of the package against the status quo". That is very much our position. We are not going to draw a line in the sand definitively. We understand that bifurcation is a difficult issue for industry; we understand that Articles 6 to 8 is a difficult issue for industry. We will consult closely with industry in the endgame as to whether the deal is or is not worth doing, but if they themselves are not prepared to say, "This is a red line" or "That is a red line" I don't think we should be doing so.

Q147 Mr Clappison: It is increasingly evident to us, from the evidence that we have received, that it is a red line to people, and they have raised it with us. I do not think we should throw it back on to them; I think it is a matter for the Government to stand up and to say what is a red line, or, "This is a red line".

Baroness Wilcox: When we get to the point of the negotiations when we've got as far as we can go, hopefully, if we've got to success, that will be marvellous and they will say how marvellous it is that we have done that. If we cannot, then we will go back; we will speak to all the people that you are referring to and we will see where it is we go from there.

Q148 Stephen Phillips: Mr Feinson just said you accept the position that it is a package, and therefore you have to take it as a package or leave it. The difficulty is that what you are really saying in that answer is that the Government might be prepared to trade away something that we have been told is a red line or a line in the sand—that's bifurcation—in exchange for, for example, having the central division of the court located in London. Is that the Government's position?

Baroness Wilcox: The Government's position is that we are negotiating at the moment. Having listened to all advice, we know exactly what it is we want; we know exactly what the people you are referring to want; and we will do our very best to get the very best deal that we can for Great Britain.

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Q149 Stephen Phillips: But with the potential of caving in on the issue of bifurcation in the future, or as part of a deal.

Baroness Wilcox: I can't possibly say that.

Stephen Phillips: Very well.

Q150 Michael Connarty: I must admit I remain as puzzled as Mr Phillips about why the Government cannot reveal the strength of its position in any of these areas. I just wonder what the point is of coming to give evidence that we are negotiating. People want to know, when people come to give evidence, what the Minister and the Government are standing for. Standing for negotiations, that we give up everything or we give up nothing, seems to me to be not a very satisfactory way of answering questions at a Select Committee.

Baroness Wilcox: I'm so sorry. Every one of the countries that are negotiating at the moment has things that they would like. The Germans want more bifurcation; the French want more French—they think the English get favourable treatment. Small states do not want to pay very much, etc. Everybody has something they are negotiating with. We know exactly what it is in the best of all possible worlds we would like, and you know because you have taken evidence. When people say that there is a line in the sand that they will not go past, that is not completely the impression that we have been given by the stakeholders that we have been talking to. We have gone back after our meetings with you to speak again with the stakeholders to see exactly how far they wish to go, and it is for them to talk with us all the way along to see how it is they feel that things are going.

Q151 Michael Connarty: The Minister may not be surprised at my next question. The stakeholders whom we keep referring to have all submitted evidence, and the comment that is consistent is that the Unified Patent Court should not be given exclusive jurisdiction in the first instance, and that it has to prove its worth, they have suggested possibly over a period of 15 years. The current system, they have said, is far from broken. They are not saying that they want this as an alternative to a system that does not work; they want an improvement. It should not be permanently replaced until it has proven its worth. This sounds eminently sensible; does the Government support that position?

Liz Coleman: Exclusive jurisdiction is something that the court will need, because otherwise we will end up with conflicting decisions between the Unified Patent Court and the national court in relation to, certainly, the bundle patent in due course. Because we understand the concern of stakeholders about allowing the court to build up its reputation and caseload so they can see how it works, we have been negotiating on the transition period during which people will be able to use the national court instead of the Unified Patent Court, and patent holders will be able to opt their own patent out of the system of the Unified Patent Court entirely. At the moment, at the last stage of negotiations, the transition period was already becoming quite long.

Q152 Michael Connarty: Can I just make a comment before we pass on? It seems to me that, if you have a negotiator fronting your campaign who does not seem to have guarantees that they will not give up on the location of this central court or the question of bifurcation, you can see why stakeholders might end up in the worst of all positions, getting neither or none of the things they want. They might think they have been sold down the river by the Government if in fact the negotiation proves not to be quite so skilful or as effective as we all hope.

Baroness Wilcox: I can only tell you that we have the stakeholders you are referring to close to us. The Intellectual Property Office has them and they are informed every step along the way and negotiated with. As you have heard, exclusive jurisdiction is one area where we still have concerns; of course we still have concerns about it, and we will continue to negotiate. Stakeholders know we will too. They do know what we are doing. It is not as if we are doing it in a vacuum.

Michael Connarty: Let's hope they don't feel at the end of the day that you have let them down.

Baroness Wilcox: No, never.

Q153 Chris Kelly: Minister, how likely is it that suitably qualified and experienced judges will be found to fill the local and regional divisions of the UPC?

Baroness Wilcox: The unified court should not lead to an increase in patent cases in Europe. That is something that we have emphasised. It will be the reverse, in fact, as multiple litigation is replaced by a single European act. A proportion of the existing expert patent judges in the major jurisdictions will therefore become available to work for the unified court as the caseload of the court grows. It will not reach full capacity for some years, and training for additional judges is already planned to start as soon as the court is agreed. I don't know if that is the answer you were looking for.

Q154 Stephen Phillips: I will follow up on that. If you take a small state, it probably has very few patent cases in any one year and they will no doubt be assigned to a general division rather than to a specialist division. If, in some of the small Baltic states for example, there are no specialist patent judges, how and by when are they going to be created?

Liz Coleman: Some of the smaller states have already talked about joining regional divisions with larger states, so people have certainly talked to us about coming in with the UK on a regional division. There would therefore be room for their judges or their future judges to gain experience by working in that way. It is also the small states who have been very interested in the possibility of training up judges so they will have patent expertise. One reason most of these smaller states have joined, for example, the European Patent Convention is because they want their patenting environment to become improved. That is the way I think it will go forward.

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Q155 Stephen Phillips: How long is the transitional period that is currently being contemplated? You described it in an answer to Mr Connarty. Where the court has exclusive jurisdiction but there are transitional provisions allowing you to go before the national court, how long is that contemplated as being?

Liz Coleman: In the last text that the discussions took place around, it was seven years to start with, with the possibility of another seven years. That would also cover patent applications, which could be up to that, so it is getting quite long.

Q156 Chair: On the question of the location of the central division, why in your opinion is it so important that the central division should be located in the UK?

Baroness Wilcox: Why do we think it's important?

Chair: Why do you think that it is so important that the central division is located in the UK? If I am prevailed upon to put it another way, what do you think the consequences would be if it was not located in the UK?

Baroness Wilcox: We would like it to be located in London. We think that we have the best facilities; we think the country has a wonderful situation here; we know pretty well how much it will cost to run it per year—about £1 million—and we know the amount of money that it would bring in to London. Obviously we would like to have it here; we would also like to write the rules. These are the things that we would like to bid for and negotiate for. Other than that, we will be looking at the other locations and, during conversations when we were there with the Poles, there was a suggestion that the central court might not necessarily be led by a national judge from the country it was going to be located in; it might be led by someone from another country. We would like to think that, if we did not get the location, we might be able to lead on that. We would like to see if that is a suggestion that might still be considered. This was in the side negotiations when they were trying to get the vote done at the end of December to see if they could get it within the Polish Presidency. Whether that will still be there I don't know, but I think it would be very good for us if we could have it here in London. We have the Rolls Building—I don't know if we will be able to use it, but it is there and it is open—we have an expertise here and, of course, we work in English.

Q157 Michael Connarty: I am not anticipating a full and frank answer to my question, but—

Baroness Wilcox: Edinburgh?

Michael Connarty: I would say Edinburgh would be before London at every chance. It's already too crowded down here with too much of the power and wealth of our country; it is distorted, and I am not a separatist. I would like a yes/no answer to my question. The Minister doesn't seem to be fond of red lines, but are there circumstances in which the UK would compromise on location of the central division rather than pressing for London or the UK? Yes or no?

Baroness Wilcox: Yes. We are still in negotiations; we have to say we are still in negotiations. We are still in negotiations.

Q158 Stephen Phillips: “Yes, but we are negotiating?” Is that right?

Baroness Wilcox: We are still negotiating, but we would like to have a single patent court.

Q159 Michael Connarty: I think there might have been a bit more feeling of strength in the arm of the people, practitioners and companies if it was a no instead: I think “still in negotiation” is probably a cause for concern. It is certainly for me a cause for concern that we have a Minister who cannot tell us with some strength that they will go out and fight for our country in a negotiation as important as this.

Baroness Wilcox: I hope we will fight for our country to get the best possible deal that we can. The best possible deal that we can depends upon a lot of factors. We know what it is we would like in the best of all possible worlds, but we may negotiate to get the best deal we can and then look at the best deal we can and see if it is worth having. That is how I have always negotiated. I come from a business background; I have been a fish trader most of my life; I know how to negotiate—

Michael Connarty: Look at the state of that industry.

Baroness Wilcox: That's true, but that's another argument for another day.

Q160 Jacob Rees-Mogg: Just following on, I completely understand why you do not want to give away the details of your negotiating position. That seems a perfectly rational thing to do during a negotiation. However, by ruling out red lines in a couple of areas, that indicates that those areas are up for negotiation. That is where I am troubled, because it seems from what we have heard that there is strong opposition to not having the court here and on the bifurcation issue. From what you are saying, those are in the negotiating pot because you are not willing to rule them out.

Baroness Wilcox: I would love to say to you “Here is where we stand and this is it”, but it is a negotiation. This is an open court. This will be reported in the press, and the press is read in other countries than this country. I do not want to totally reveal our position; I don't think that would be right and proper for us when negotiating.

Jacob Rees-Mogg: I understand that, but unfortunately what has been revealed is that there aren't these two red lines—that is what is concerning; if they were red lines, you would have no difficulty in saying so—and that they are in the negotiating pot, which is what people will get from this discussion.

Q161 Stephen Phillips: Can I just follow up on that? Essentially, we could end up with a deal—and I appreciate that we then have the opportunity to decide whether or not we want to sign up to it—where the things you have described as so important, which you are negotiating about, are things that just might not happen, Don't you find that concerning? Certainly I think we all do, given the evidence we have heard. We would be left with a take-it-or-leave-it patent court, and left behind with yet another European institution that is not in London. Hasn't the time come for you and the Government to say, “These are our

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red lines; if you can't agree with them, then we may as well stop negotiating now"?

Baroness Wilcox: It has been 41 years since they have been talking about a single patent for the European Union. During that time, we have watched the Chinese come forward, who are lodging 1 million patents a year—one patent for the whole of their country. We have the United States, who are lodging half a million patents a year—one patent for the whole of their country. We have the disunited states of Europe, where people in this country, particularly small and medium size business where we need growth so much, are having to lodge their patents in country after country within the European Union in different languages, legally translated. It is costing a fortune. If there is a chance for us to get a single patent, then we will do everything we can to advantage the traders from Great Britain. That is what I am trying to do; that is what my Government is trying to do; and that is what I will continue to do for as long as I am privileged to be in this position.

Q162 Stephen Phillips: But, you accept, at the potential cost of riding over the things that this Committee has been told in evidence ought to be red lines.

Baroness Wilcox: This Committee has been told things in evidence by organisations that are working

as advisors to us for us to negotiate. They are perfectly well aware of the fact that, in any negotiation, it is pretty rare that you are going to get 100% of what you want. You are asking me where we draw the lines; it all depends on the whole negotiation. The only other thing I can tell you is that I am prepared to come back to this Committee with our team again and again, and send as many letters as I possibly can to the Chairman, to make sure that you have everything that you want. I cannot emphasise enough how important it is for us to feel that we have the confidence of this Committee. I know that it is extremely difficult when I cannot put red lines in the sand.

Q163 Chair: Can I just say that it is also extremely important to us, on behalf of Parliament, to get answers to the questions? Therefore, I would ask you if it is possible for you to provide us with a note of the current state of affairs regarding the stakeholders and, also, that you meet with the stakeholders in light of the questions that have been put to you during the course of these proceedings so that they are as up to date as they need to be. We look forward to receiving that as soon as you reasonably can.

Baroness Wilcox: Yes. I would be delighted to do that and delighted to have the opportunity to do it. Thank you very much indeed.

Chair: Thank you very much indeed.

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Written evidence

Written evidence from Dr Christian Gassauer-Fleissner, Chairman of the European Patent Lawyers Association

ENFORCEMENT OF PATENT RIGHTS

EPLAW Position on the Draft Regulation Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection (the “Regulation”) and on the Draft Agreement on a Unified Patent Court and Draft Statute (“the Agreement”).

SUBMISSION TO THE EUROPEAN SCRUTINY

In preparation for oral evidence to be given on 25 January 2012

There are important reasons underlying the proposal for creation of a unitary patent and making available a specialized court having jurisdiction for the enforcement of such unitary patents. These are (1) to achieve substantial savings in costs and effort for enterprises that desire patent protection in the EU member states participating in the enhanced cooperation, and (2) when enforcing such patent rights, to ensure expeditious and high quality decisions, by specialized judges, which will be effective across all participating states. It is the opinion of EPLAW that the present drafts of the Agreement¹ and Regulation, for various reasons, fail to accomplish such aims. Many of those reasons are addressed in the Fiftieth Report of the European Scrutiny Committee.

1. The proposed system is burdensome and expensive, in particular from the point of view of SMEs. For example, a German patent owner could sue his English competitor alleging infringement of his patent, which was drafted in German, in any participating country where the English competitor made sales; the English defendant would then have to defend himself in the language of the court chosen by the patentee. This situation may be aggravated further where the alleged infringer defends himself by challenging the validity of the patent. In certain cases the question of validity may also have to be decided in the language of the infringement court. However, under the bifurcated system the infringement court may refer the question of validity to the central division, whose seat is yet to be decided, where a different language regime may then apply. The judgments from the courts of the unified system will have effect in all 25 participating member states. It is self-evident that language barriers still exist and will play a major role in the cost of bringing, or defending, patent litigation. The language and consequent translation requirements will be particularly burdensome for SMEs.
2. Another example of the shortcomings of the proposed system is the possibility for referrals to the CJEU/ECJ under articles 6–8 of the Regulation which deal with infringement of the unitary patent. This will no doubt delay decisions in infringement cases by years and at the same time significantly increase cost and expense for litigants. This is clearly and totally against the purpose of the entire project to achieve savings in costs and efforts, (particularly for SMEs) and to ensure expeditious, high quality decisions.
3. A fundamental objective of the project is to avoid decisions by inexperienced judges, particularly in courts of first instance, by centralizing patent cases before specialized courts and judges. The proposal as it stands aggravates the deficiency of the current system by turning the situation upside down since the CJEU, as a court of appeal for infringement of unitary patents, will be far from specialized. In any event, much effort is intended to be made to secure experience in the local divisions and in creating a central division and a court of appeal which are structured and designed specifically to meet the particular challenges of patent law. However, on questions of infringement of the unitary patent under articles 6–8 the final say will now lie with the CJEU which completely lacks all the characteristics and features commonly accepted as requirements for a court that can render quality decisions and which will not be restructured to meet those characteristics and features. Further, the judges there will not have to go through the selection and training process that will be required for judges at the specialized patent courts.
4. The inclusion of articles 6–8 in the Regulation is not required to make the proposed new system compatible with EU law. Nor is it necessary for the purpose of achieving uniform protection of a patent under the new system. Uniform protection will arise upon request for unitary protection. The grant of any patent with unitary effect is scrutinized on a uniform basis, the patent with unitary effect is interpreted on a uniform basis and the infringement and revocation rules are uniform as well. It is difficult to understand the logic of articles 6–8 being included in the Regulation as currently proposed. On the one hand they mean that some aspects of patent law relating to infringement would be governed by EU law but others would not be. The opinion of Prof Kraßer (annexed hereto) provides good guidance on this issue. The inclusion of article 6–8 in the Regulation will inevitably lead to a number of very difficult problems. On the other hand, if it were correct that articles 6–8 need to be implemented into the Regulation, then surely the same would have to apply to all other

¹ The most recent version of the Agreement is *limité* and not publicly available. However it not understood to have been revised materially from the draft dated 19 October 2011.

matters of substantive patent law, namely what amounts to a valid patent and how the scope of the patent should be defined. However, surprisingly, this is not argued by those in favor of including articles 6–8 into the Regulation. Finally, since the Regulation will not apply to litigation of European (EP) patents in the proposed unified courts there remains the concern that references to the CJEU on matters of infringement of the unitary patent will inevitably create a separate, parallel body of patent law than the existing law, based on the European Patent Convention (EPC) and upon the national laws, which have already been substantially harmonized by statute as well as by case law.

5. It is premature to conclude any agreement on the new system. Important open issues include (1) the fees payable by the users of the new system (this again is vital for SMEs), (2) the allocation of costs and revenues to the participating states (which will play a role in some states' decision on whether or not to create a local division of the court which in turn again is of importance for SMEs), (3) the draft procedural rules,² which presently contain more than 400 provisions, will require an enormous effort to find compromises between the participating states on fundamental aspects of civil procedure law to ensure a harmonized, expeditious and appropriate procedure for all type of cases, and, not least, (4) the amount of recoverable costs that a successful litigant may claim. Those issues must not be left for later discussion but should be addressed before any agreement to implement the proposed system is concluded.
6. There should remain available a permanent option for parallel national litigation for European (EP) patents. It should be up the patent applicant whether or not, by requesting unitary effect for its EP patent, it opts for the unified court which is primarily linked to the unitary patent.
7. Of great concern also is the issue of legal privilege. There must be absolute certainty that in the highly sensitive area of innovative technology business and commercial secrets are safeguarded in the course of litigation, as well as any legal advice that may be given to a party. If privilege is not addressed satisfactorily then parties to litigation in the unified court may find themselves having to disclose litigation documents that would have been treated as privileged in eg UK litigation, in the context of parallel US litigation for example.
8. As presently drafted, the 7 year transitional period during which holders of, or present applicants for, European patents may opt out of the unified litigation system, is too short. Disputes about patent infringement very often arise towards the end of the 20 year patent protection period. Accordingly, it will only be possible to evaluate the viability of any new system, and its acceptance by its users, after more than seven years. It is foreseeable that by then there may only have been a small number of cases dealt with by the unified court system.
9. The present drafts of the implementing documentation lack a termination clause. Accordingly, in the worst case scenario where the unified court system is not functioning in the proper interests of the users (in that it fails to achieve the aim of providing a high quality, expeditious and cost effective system) there is no possibility of terminating the arrangement to allow participating countries to revert to the existing national litigation system for European (EP) patents.
10. The present drafts allow the parties to be represented before the unified court alone by patent attorneys (ie not by lawyers (advocates)). Representation by technical professionals who are not educated in substantive civil law, various aspects of which often arise in the course of patent infringement litigation, and who are not experienced in civil litigation procedure, is not likely to facilitate the efficient handling of cases before the various multi-national local and regional divisions of the unified court, nor before the central division or the court of appeal. It is noteworthy that patent attorneys have no right of representation before the CJEU. It is also to be noted that the admission of patent attorneys to represent clients alone before the unified court is not welcomed by judges (eg Resolution Venice II of the Intellectual Property Judges Association (copy annexed hereto); Presentation by a presiding judge of a German Higher Regional Court).
11. The draft Agreement makes clear that it applies to Supplementary Protection Certificates (SPCs—certificates that extend the life of patents for drugs and for pesticides that have received regulatory approval to be sold in the EU) and that the unified court shall have exclusive competence for infringement of SPCs. However, SPCs are made available under the EU's SPC Regulations 469/2009 and 1610/96 which make clear that they are national rights. It may therefore be necessary to amend these regulations in order for SPCs to be available and enforceable in a unified system. Thus it is presently unclear how, and on what basis, SPCs will be granted with unitary effect and how they may be enforced, or their validity challenged, in the proposed unified system.

13 January 2012

Annex 1

RESOLUTION VENICE IV

For a speedy and effective procedure it is highly desirable that the technical aspects and all relevant legal questions of the case are presented to the court at least by attorneys who are fully entitled to represent parties in ordinary civil proceedings in the court of first instance of the convention states (Venice II Resolution XI5).

² The current draft of the "Preliminary set of provisions for the Rules of procedure of the European and Community Patents Court" is dated 16.02.2009.

Annex 2

Professor Dr. Rudolf Kraßer, Ordinary Professor (em.) for Private Law and Patent Law at the Munich University of Technology, External Academic member of the Max Planck Institute for Intellectual Property Law and Competition Law

Effects of an inclusion of regulations concerning the content and limits of the patent holder's rights to prohibit in an EU regulation for the creation of unitary European patent protection

I. OCCASION FOR THE STUDY

1. Pursuant to Art 20 (2) of the TEU, the Council can in accordance with the principles and in the procedures laid down in Arts. 326 to 334 of the TFEU authorise enhanced cooperation limited to some of the Member States by finding that the objectives pursued by the cooperation cannot be achieved by the Union as a whole within a reasonable period. The Council has issued such an authorisation by ruling dated 10 March 2011³ for the field of the creation of unitary European patent protection.

The European Commission then submitted a proposal for a corresponding Regulation. In its current wording, the latter also contains provisions on the patent holder's rights to prohibit direct use and indirect use of the patented invention and on the restriction of the effect of the unitary patent to be created pursuant to the Regulation. This concerns a core area of substantive patent law. If the Regulation in its present proposed wording were to enter into effect, it would become an integral part of the law of the European Union. What would not become European law, on the other hand, would be the rules contained in the European Patent Agreement (EPA) concerning the substantive preconditions for the grant of a patent and on the corresponding grounds for which a granted patent can be revoked or declared null and void. This would not lead to any changes for the Member States participating in the enhanced cooperation. The same also applies to the determination of the scope of protection. According to the proposed Regulation, Art. 69 of the EPA and the corresponding Protocol to be issued by the European Patent Office would also determine the scope of protection for the patent with unitary effect.

2. The creation of the possibility of European patents with unitary effect for the Member States of the EU participating in the enhanced cooperation is intended to achieve substantial savings in costs and effort for enterprises that desire patent protection in all these countries.⁴ The same objective is also pursued at the level of the enforcement of unitary patent protection and the subsequent review of the legal validity of patents with unitary effect (as also for the European "bundle" patent) by means of a European patent litigation system,⁵ for which preliminary work began roughly 10 years ago and for which today fully developed proposals are available. At the moment, the objective is to reconcile these proposals with Union law according to Opinion 1/09 dated 8 March 2011 of the European Court of Justice.⁶

3. The following considerations address the question whether for the objectives that are aimed at by a patent with unitary effect for the Member States participating in enhanced cooperation and by the establishment of a European patent litigation system, it is of advantage or more of a disadvantage to include provisions concerning the content and limitations of the substantive law effects of the patent in the Regulation on the patent with unitary effect. Of importance here is in particular the jurisdiction of the Court of Justice of the European Union to issue preliminary rulings on the construction of the treaties and the acts of the bodies, institutions and other agencies of the Union regulated in Art. 267 of the TFEU. Within the scope of this jurisdiction, courts of the Member State can submit questions of interpretation to the Court of Justice (Art. 267 Para. 2, TFEU); courts against whose decisions there is no judicial remedy under national law are obliged to bring the matter before the Court (Art. 267 Para. 3, TFEU). The following examines a number of important provisions of Articles 6 to 8 of the proposed Regulation for the problems they contain that might give rise to an occasion or an obligation to submit the matter to the Court of Justice of the European Union.

II. *Problems in the interpretation of the provisions concerning the content and limitation of the effects of unitary patents contained in the proposed Regulation*

1. Uses with respect to a product which is the subject matter of a patent (Art. 6 a of the proposed Regulation)

(a) *Manufacture*

The factual requirements are satisfied by the creation of a product that contains identically or in equivalent modification all the technical features designated in a claim of the patent asserted. Whether this is the case is to be determined by the rules concerning the determination of the scope of protection, which are not part of EU law (see above I.1). It would on the other hand be necessary to interpret the Regulation concerning manufacture contained in the proposed Regulation if a user only carries out a part of the production process, which is then completed by another person. The question then arises whether under certain circumstances the

³ No. 2011/167/EU, OJ L 76 of 22. 3. 2011, p. 53.

⁴ Communication from the Commission to the European Parliament, The Council, the European Economic and Social Committee and the Committee of the regions: A single market for intellectual property rights ... (provisional version, COM (2011)xxx), No. 3.1.1.

⁵ No. 3.1.2 loc. cit.

⁶ GRUR Int. 2011, 309.

completion is to be attributed to the person who began the manufacture, who would hence be guilty of a (direct) patent infringement.

Problems have also risen in cases involving the repair of patented products. Admittedly, as a rule, the principle of exhaustion means that the purchaser is free to do what he likes once a product has been put into circulation with the patent holder's consent, but under certain circumstances this can be interpreted as the making of a new product, which is reserved to the patent holder. Of practical importance in more recent decisions by German courts is the distinction between a mere repair and the making of a new product in the event of the replacement of wear-and-tear parts which are of essence for the functioning of the patented product but which of themselves are not protected because they do not have all the features listed in the relevant patent claim. If repair in such cases is interpreted as the making of a new product infringing the patent, not only can the user of the complete product be prohibited from making such a repair as being a direct infringement, but the supply by the supplier of the spare parts can also be prohibited as an indirect infringement.

(b) *Putting into circulation*

Areas of doubt with respect to this factual element can arise in cases of export from and transit through the geographical scope of application of the patent. Can the patent holder forbid such acts even if the products do not enter into the power of disposal of a third party in the said area?

(c) *Import, possession*

If a person has imported or possesses patented products without yet having offered them for sale, put them into circulation or used them, there may be doubt as to the conditions under which it can be assumed that the import or possession is for the purpose of offering a product for sale, putting it into circulation or using it. Is it sufficient that objective circumstances clearly indicate such a purpose, or must the importer or possessor be proven to have a (subjective) intention to this effect?

2. Using or offering for use a process that is the subject matter of a patent (Art. 6 b of the proposed Regulation)

(a) Where a process is used, preparatory acts such as the making or supplying of means for the use of the process are to be distinguished from this use itself, although of course supplying can be an indirect use. Doubt may arise as to whether the testing of means for the use of the process within certain limits without the consent of the holder of the process patent is permissible, even if it completely implements the method.

(b) If means for the use of the process have been put into circulation with the consent of the process patent holder, the question arises whether, in accordance with the exhaustion principle, they can be applied to use the process without further requirements or—because the exhaustion principle does not apply here—only with the specific consent of the patent holder. If the latter is to be assumed, and if express consent has not been issued, it is necessary to examine whether this can be regarded as having been granted implicitly in the light of the circumstances of the case.

(c) The question of when the offering of a process for use can be regarded as an infringement of a patent has as yet not been clarified beyond doubt in the literature, but has, as far as can be seen, acquired hardly any practical significance. Nevertheless, it cannot be excluded that in an individual case a party to the litigation may rely on an opinion in the literature that appears to support its view and thus give occasion for a submission to the Court of Justice of the European Union.

3. Acts with respect to a product obtained directly from a process that is the subject matter of the patent (Art. 6 c of the proposed Regulation)

In this area, doubt may already arise with the definition of the term product: are only physical objects covered, or might the term also include intangible process results such as sound, light, heat or electrical energy?

From experience, it is often difficult to distinguish between a process used to make a product and mere "working methods" that only change the condition of a product, or merely check it for specific qualities, without substantially changing the product itself. Thus for instance degassed tubes have been regarded as products of the degassing process, while a similar result was denied for impregnated drive belts as products of the impregnation process; nor were motor blocks repaired using a patented metal injection process regarded as a product of this process.

According to the prevailing opinion in Europe, products that have been found by means of the use of DNA sections for test purposes are not products of any patented test process. However, it cannot be excluded that in individual cases such an extension of patent protection will be requested in infringement litigation, as has occasionally been attempted in patent applications by including "reach-through" claims. Many courts might take this as an occasion for submitting the matter to the Court of Justice of the European Union.

(d) The question whether a product has been *directly* obtained by means of a protected process has been addressed by judicial practice, specifically in cases in which the first result of the process has been further processed with or without chemical conversion or has been included as a dependent element in a complex

object. Since such procedures do not necessarily interrupt the direct connection with the protected process, criteria need to be developed for an intelligent delimitation of the effects of a patent.

4. Indirect use (Art. 7 of the proposed Regulation)

(a) The central objective element of the factual constellation is that the means the supply of which might be an indirect use relate to an essential element of the invention. The requirement for this cannot be that it has all the features of a patent claim. Whether a factual *requirement is nevertheless satisfied depends on technical conditions, the assessment of which may cause considerable difficulties in the individual case and require corresponding special technical knowledge.

(b) The supply of means that while relating to an essential element of the invention are staple commercial products does not constitute indirect use. The supplier is only liable under patent law if he deliberately induces the person supplied to perform a direct patent infringement. Anyone who deliberately induces another to infringe a patent is, however, already liable on the grounds of inducement to unlawful conduct according to general principles that are no doubt to be found in the national laws of all the countries participating in enhanced cooperation. The provision in the proposed Regulation that makes this liability an integral part of EU law in cases where the inducement is related to the supply of means generally available in commerce, is preparing the way for submissions to the Court that might lead to the development of EU-specific rules for part of the field of application of the said general principles, and for this reason is systematically inappropriate.

(c) Doubts may also arise when determining whether a supply has been made for the use of the protected invention. This feature of the factual element is in connection with the one that requires that the supplier knows or ought to have known that the means supplied are capable and intended to be applied for the use of the invention. In practical terms, the decisive factor will in the final analysis mostly be whether the supplier at least should have had this knowledge. If this is the case, it can also be assumed that the means were supplied for the use of the invention. The decisive aspect will be what objective circumstances are regarded as the reasons for the supplier being reproached for the ignorance on which he might attempt to rely. Even though it will depend essentially on the individual case, it cannot be excluded that this will be used as the basis for a question to be submitted to the Court of Justice of the European Union.

5. Limitation of the effects of the patent (Art. 8 of the proposed Regulation)

(a) The exception proposed for acts done privately for non-commercial purposes can give rise to doubts as to interpretation concerning the distinction between the private sphere and in particular the commercial nature of the purpose pursued by the use of the invention. Should any activity whose objective is gain be sufficient, even if the activity is carried out as part of dependent employment, or must it be a self-employed activity? In the latter case, should members of the liberal professions be treated as equivalent to persons pursuing a trade in the narrower sense or not?

(b) Within the framework of the exception proposed for the use of the invention for experimental purposes, it may in the individual case be doubtful whether the subject matter of the invention is (merely) the object of the experiment or (possibly also) an aid to the conduct of the experiment.

III. CONCLUSION

1. The above—by no means exhaustive—summary shows that the inclusion of provisions concerning the content and limitations of the effects of the patent with unitary effect for the EU Member States participating in the proposed enhanced cooperation in the Regulation serving to create this patent opens up a broad field of opportunities and in many cases also obligations to submit questions on the interpretation of these provisions to the Court of Justice of the European Union pursuant to Art. 267 of the TFEU. National courts involved in the application of these provisions can be expected in many cases to see an occasion or an obligation to submit the matter to the Court, in particular if they have still little experience in patent law. The provisions of Art. 267 concerning preliminary rulings by the Court of Justice and the corresponding questions for submission would, however as follows from the Court's Opinion (see above 1.2)—also have to be taken into account by the courts that will be responsible within the framework of a future European patent litigation system.

The court of justice would no doubt be capable of replying to the questions submitted with leading decisions. However, the court would be overstretched by the expected quantity of questions submitted. As the “constitutional court” of the EU, it should not be obliged to address individual issues in a specialised field. Of significance is also the fact that questions submitted on patent law can frequently only be answered with the assistance of technical experts. The objective of offering protection in the form of the unitary patent that has considerable cost advantages and perceptibly reduces the working effort of its users would be defeated by the possibility and obligation to submit preliminary questions, if only because of the large additional time involved that each preliminary question requires. In the field of patent law, this can be significantly more if the consultation of technical experts is necessary.

2. The need to develop principles for the effect of the planned unitary patent that would apply equally in all participating Member States is primarily to be taken into account by harmonising the corresponding national provisions (which of course should not be by means of a European Directive, for the reasons already stated).

The 1975 Community Patent Agreement, which never entered into effect, had a not inconsiderable harmonisation effect. There would be an opportunity to continue this development if the urgently needed creation of a European Patent Court were implemented. That should not be by means of the adoption of European legislation but instead by means of a separate agreement. According to the overwhelming view, the Opinion of the Court of Justice (see above, 1.2) allows scope of this if no states from outside the EU participate. The supreme European patent instance would be able to ensure a uniform construction of the identical national substantive patent law provisions, as well as those contained in the EPA and possibly in a patent jurisdiction agreement that are not part of European law, without a greater workload being imposed on the Court of Justice of the European Union than required by its constitutional court function.

3. The models for the current versions of Arts. 6 to 8 of the proposed Regulation were essentially Articles 29 to 31 of the 1975 Community Patent Agreement (Articles 25 to 27 of the version according to the 1989 Agreement on the Community Patent). However, these provisions did not become an element of Community law and for this reason their interpretation does not fall within the preliminary ruling jurisdiction of the Court of Justice. Instead, according to the Dispute Settlement Protocol drawn up in 1985, a Common Patent Appeal Court (COPAC) was intended to ensure the uniform handling of substantive patent law in proceedings concerning the infringement and the validity of Community patents. The inclusion of substantive law provisions concerning the content and limitations of the effects of a unitary patent for the Member States participating in enhanced cooperation would, on the other hand, subject an important element of substantive patent law to the preliminary ruling jurisdiction of the Court of Justice of the European Union, which in many cases would lead to delays in the proceedings as well as additional cost and effort for the parties involved, thereby seriously counteracting the objectives of the enhanced cooperation. Similarly, the effects on the field of patent law would run contrary to the objective aimed at by a separate Directive⁷ of the rapid and effective enforcement of intellectual property rights.

1 September 2011

Written evidence from Baroness Wilcox, Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills

EUROPEAN UNION DOCUMENT NOS: 9224/11 & 9226/11 (32700 & 32701): REGULATIONS ESTABLISHING A UNITARY PATENT, AND THE APPLICABLE TRANSLATION REGIME, WITHIN THE FRAMEWORK OF ENHANCED COOPERATION

I am writing to update you on the progress of the patent Regulations following the adoption of a general approach at the Competitiveness Council of 27 June 2011, for which you kindly lifted the scrutiny reserve under paragraph 3(b) of the scrutiny reserve resolution as set out in your letter of 22 June.

The Regulation establishing a unitary patent, under the co-decision procedure, has been the subject of informal discussions between the Council Presidency, the Parliament and the Commission with a view to agreeing a deal at first reading. The Council's position was based on the general approach.

The lead committee in the European Parliament is the Legal Affairs Committee, who voted on the Commission's proposal on 19 December 2011. Although a consolidated text including the Committee's amendments has not yet been finalised, the Council secretariat has published the four-column document 17578/11 setting out the compromise text to which the Legal Affairs Committee's amendments correspond.

We expect the European Parliament to consider the Legal Affairs Committee's report and any other amendments tabled at its plenary session in February, following which the file will return to the Council, possibly for adoption as an "A" point.

I enclose the four-column document for your information, and I have set out below the main substantive changes in relation to the general approach, without addressing minor drafting changes or reorganisation of the text.

- New Recital 11a makes reference to provisions on damages in the enforcement Directive (2004/48/EC), not governed by the unitary patent Regulation.
- Recital 16 and corresponding Article 15(2) refer to taking account of the needs of small and medium sized enterprises in setting fees.
- New Recital 21b urges participating Member States to ratify the Agreement on the unified patent court in accordance with national constitutional and parliamentary procedures and take steps for the court to be operational as soon as possible.
- Articles 6–10 are clarified to refer only to territories where the patent has unitary effect (see Article 22)

⁷ Directive No. 2004/48/EC of the European Parliament and the Council on the enforcement of intellectual property rights of 29. 4. 2004, OJ L 157/45, 195/16 and 351/44.

- Article 12(2) is expanded to clarify that the Select Committee of the Administrative Council of the European Patent Organisation will consist of representatives of the participating EU Member States, together with an observer from the Commission, and will take decisions with due regard for the position of the Commission.
- Article 20 is changed so the Commission reports on the operation of the system after three years from the first unitary patent taking effect, and every five years thereafter (from six and six previously).
- Article 21 is amended to require participating Member States to notify the Commission of implementing measures, adopted by the date in Article 22, or the date from which the unified patent court has exclusive jurisdiction in that Member State.
- Article 22(2) sets out the application date of the Regulation as being 1 January 2014 or the date of entry into force of the Agreement on the unified patent court, whichever is later. European patents shall only have unitary effect for the participating Member States in which the unified patent court has exclusive jurisdiction at the date of registration (of the unitary effect). The consequence of this should be that the European patent has effect as a national patent in other States designated in the application, providing any national requirements are met.
- Article 22(4a) distinguishes between the date of 1 January 2014 for ensuring administrative arrangements are in place at the European Patent Office as required by Article 12, and the date for implementation of measures ensuring that unitary effect can be inscribed in the European Patent Register which must be by the time the unified patent court has exclusive jurisdiction for the state concerned.

These amendments bring into place the improvement noted in your letter of 22 June, that the Regulation does not come into effect unless there is agreement on a unified patent court that is compatible with EU law.

Also included in the document 17578/11 are two small changes to the Regulation on applicable translation arrangements (page 67). This Regulation is subject to unanimity in the Council and consultation of the European Parliament. We expect it to be considered at the same plenary session in February before coming back to the Council for possible adoption.

I appreciate that the waiver granted in June means these Regulations have not yet cleared Parliamentary scrutiny, and I would like to ensure that we provide the Committee with all the necessary information you need in this respect.

As these Regulations are within the framework of enhanced cooperation, I note that the draft Council Decision authorising enhanced cooperation on the unitary patent (11815/10) is retained under scrutiny, and would be pleased to supply any further information that is needed for it to be cleared. However the previous draft regulation on language arrangements (11805/10), which was being discussed before enhanced cooperation was authorised in March 2010, is effectively superseded by 9226/11.

19 January 2012

Further written evidence from Baroness Wilcox, Parliamentary Under-Secretary of State, Department for Business, Innovation and Skills

European Document No. 11533/11, Draft Agreement on a Unified Patent Court and Draft Statute

Thank you for the Committee's consideration of the enforcement of patent rights at your meeting of 20 December. I am writing in response to the points raised and to provide further information before the Committee's evidence sessions on 25 January and 1 February.

First I should confirm that after the Competitiveness Council of 5 December, and following a number of bilateral contacts between the Polish delegation and states participating in negotiations on the unified patent court, the Poles determined that there was no consensus on the compromise package they had proposed on 5 December. Consequently they decided to cancel the initialling ceremony they had scheduled for 22 December. Discussions on the unified patent court are continuing under the Danes, though there is no specific format or timetable. We understand that on the draft Agreement they hope to make early progress.

The Rules of Procedure, which set out how the Agreement will operate in practice, were previously taken forward by an expert group of stakeholders advising the Commission. Members of that group tell us they have been invited to a meeting on 3 February to continue their work.

Regarding the concerns of the Committee about having an up to date text of the Agreement, I fully understand your position. Unlike the situation which might apply in the case of legislative procedures in the Council, we do not have a single up to date text which sets out agreed positions and reservations by delegations. We might have expected a clean text if the Agreement had been ready for initialling on 22 December.

However in the light of the Committee's request my officials have taken the opportunity to consolidate the main working documents which have been published since document 11533/11, and this unofficial text is enclosed. An analysis of the main changes is included in Annex 1, as well as an indication of the areas covered

by the Polish compromise proposal, on which we expect discussion to continue. The compromise proposal has not been made publicly available, other than to the extent summarised in the Council press release after the 5 December Competitiveness Council, and is still under negotiation between the states concerned.

As regards the specific issue of Articles 6–8 of the patent regulation, and the body of expert opinion to which the Committee refers, perhaps it would be helpful to distinguish between the provisions of the Agreement establishing the unified patent court, and those of the patent regulation.

As members of the Committee will appreciate, the Court of Justice of the EU always has the power to interpret questions of EU law, for example when a court of the EU Member States refers such questions for a preliminary ruling. The provisions of the unitary patent regulation, including Articles 6–8, would be matters of EU law. Should an issue of interpretation arise in relation to such provisions, the courts of the Member States would need to comply with the provisions of the EU Treaties conferring jurisdiction on the Court of Justice of the EU to give preliminary rulings on any such referred questions.

The Agreement is intended to establish a unified patent court which is a court common to participating EU Member States, and will then be subject to the same relationship with the Court of Justice as current national courts. So the unified patent court will have the same powers, as national courts do, to refer questions of interpretation of EU law for a preliminary ruling.

In EU legislation which establishes any intellectual property right, it is usual to set out what the right actually consists of. For the unitary patent there must be legal provisions to say what acts the patent holder can prohibit, because these are what define infringement of the patent, which is the essence of the patent. In most national systems the patent holder can pursue action against someone who makes, sells, or imports products embodying the patented invention without the patent holder's permission, so these would be infringing acts in relation to national patents. Articles 6–8 of the unitary patent regulation correspond at EU level to the provisions on infringement which are generally found in national laws. Equivalent provisions are found in the court Agreement as far as European non-unitary (bundle) patents are concerned. However stakeholders would like infringement provisions for the unitary patent in the Agreement, rather than having them set out in the patent regulation.

A party's defence to allegations of infringement may be that the patent should be considered invalid, on the basis of specific reasons. However for patents granted by the European Patent Office, including the future unitary patent, the reasons for which a patent may be found invalid are already set out in the European Patent Convention, to which all EU Member States are party. There is therefore no need to include provisions on validity in the patent regulation.

It is undoubtedly the case that if a court dealing with a dispute decides it needs to ask a question of the Court of Justice about the interpretation of EU law, there will be a delay in giving a final ruling on the dispute. But it is for the original court to decide if any question needs to be referred, for example if clarity is needed on the interpretation of specific provisions, and equally the original court must decide how to apply the preliminary ruling of the Court of Justice once that is received. We already see this happen in the case of some aspects of EU law that relate to patents.

Nonetheless I do appreciate stakeholders' concerns about the inclusion of Articles 6–8 in the regulation, rather than having infringement provisions for unitary patents in the court Agreement. We have raised this issue with successive Presidencies, the Commission, and others involved in the negotiations. We understand that among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation, even if there is no written body of expert opinion to compare with the papers produced by Professor Sir Robin Jacob and others. Moreover, while we have taken opportunities to raise this issue with our counterparts, the general approach on the patent regulation agreed at the Competitiveness Council of 27 June 2011 did include these articles within the text of the regulation. I will cover the progress of the patent regulation more fully in a separate letter.

I hope the further information provided here will be of assistance to the Committee, and I look forward to having the opportunity to answer the Committee's questions on 1 February.

19 January 2012

**Written evidence from Henry Carr QC, Chairman, Intellectual Property
Bar Association**

INTRODUCTION

1. At present, European Patents are granted by the European Patent Office in Munich. The patentee is granted a basket of rights which can apply throughout Europe. However, in order to enforce those rights, the patentee has to sue in the national courts of different member states, which is costly and can lead to inconsistent results. For this reason, the *theory* of a Unified Patents Court has long been thought desirable.

2. However, the *practical application*, as expressed in the current draft Agreement and Regulation, has highly detrimental consequences. It is being rushed through, in spite of widespread opposition from the IP judges, the patent professions and industry.

3. The Council of Bars and Law Societies of Europe (“CCBE”) is the representative organization of about one million lawyers. The Report of its Working Group on Patents dated 12 December 2011, in relation to the Unified Patents Court, states that:

“It is apparent that the proposed Court system will not meet the goals of being accessible and affordable, especially for SMEs. The CCBE finds that the proposed system, as the proposal stands, will increase legal uncertainty and increase cost.

The CCBE is concerned that speed is now an overriding purpose carrying with it the risk that the result will be a system which users will refuse to accept.”

4. Similar concerns were expressed by the CBI, the IP Federation, the Bioindustry Association and others (including the Intellectual Property Bar Association) in a letter to Baroness Wilcox dated 16 December 2011. Whilst expressing the hope that it should be possible to finalise the project under the Danish Presidency “with calm and thoughtful discussion”, the letter expresses great concern that “the pressure to reach an agreement quickly will result in a system which could undermine innovation and growth”.

5. The main problems are as follows:

REFERENCES TO THE COURT OF JUSTICE OF THE EU (“THE CJEU”)

6. Articles 6–8 of the proposed Regulation contain provisions on direct and indirect infringement and limitations on such rights. This means that their interpretation will be subject to the preliminary ruling jurisdiction of the CJEU.

7. This is notoriously slow. It means that patent disputes will not be able to be resolved until the ruling has been obtained, which will add years to the proceedings, as well as additional costs. Further, the CJEU has no expertise in patent law and its procedures are not appropriate for cases involving complex technical subject matter.

8. At a general meeting of the Intellectual Property Judges Association on 28–29 October 2011, the Judges *unanimously* resolved that:

“they were against the proposed inclusion of Arts. 6–8 of the current draft Regulation into the final Regulation and that if they were included the new system would fail to achieve the object of a better system of patent litigation in Europe.”

There were 27 Judges present, of whom 24 were from EU member states.

9. In a report dated 1 September/18 October 2011, Professor Rudolf Krasser of the influential Max Planck Institute gave examples of numerous questions that might require a reference to the CJEU and stated that the inclusion of Articles 6–8 would:

“... lead to delays in the proceedings as well as additional cost and effort for the parties involved, thereby seriously counteracting the objectives of the enhanced co-operation. Similarly, the effects on the field of patent law would run contrary to the objective...of the rapid and effective enforcement of intellectual property rights.”

10. In an Opinion dated 2 November 2011, Professor Sir Robin Jacob, who has unrivalled expertise in intellectual property, stated:

“There is no time for anything other than plain speaking. I am fortunate enough to have had wide experience, as barrister, judge and now academic, with the patent system from all angles. I have many contacts amongst users and lawyers. I know of no one in favour of involvement of the CJEU in patent litigation. On the contrary, all users, lawyers and judges are unanimously against it.”

In a further Opinion he explained that the inclusion of Articles 6–8 was unnecessary.

11. However, the Commission is not listening, and is ploughing on regardless. Furthermore, the Legal Affairs Committee of the European Parliament is also pressing on with Articles 6–8. These Articles are likely to be contained in the Regulation, given that the major political groups are backing it, without any regard to its implications.

SEPARATION OF INFRINGEMENT AND VALIDITY

12. In an action for infringement, the validity of a patent may be challenged, for example on the basis that it lacks novelty or contains no inventive step. Invalidity is a defence to an action for infringement.

13. In the UK, validity and infringement are normally tried together. However, in Germany, they are separated, with the question of infringement being decided first. This is known as “bifurcation”. Moreover in Germany an injunction may be granted after the question of infringement has been decided but before the issue of validity has been determined.

14. Because of the haste with which this proposal is being pushed through, the issue of bifurcation has been fudged by providing that the proposed Unified Patents Court has a discretion to bifurcate in any particular case, but with no guidance as to how that discretion should be exercised.

15. In cases where the court exercises its discretion in favour of bifurcation, this again will be a potential disaster for industry. An injunction may be granted after the question of infringement has been decided which applies to many countries in Europe. Years later, the Court may decide that the patent is invalid and that the injunction ought never to have been granted at all. This does not promote innovation. On the contrary, it restricts competition without any justification.

EFFECT ON SMEs

16. The current proposal is to have a Central Division, the location of which is yet to be determined, as well as Local Divisions in different Member States. A Regional Division may also be set up for two or more States upon their request. Each panel of each Division will have three judges.

17. The relationship between Local and Regional Divisions and the Central Division is far from clear. It may be that cases where validity is challenged will have to be sent to the Central Division, which is likely to be almost all cases.

18. This complex structure is likely to be far more costly and burdensome for SMEs than the existing system in the UK. A UK SME engaged in cross-border trade may also be required to defend itself against a pan-European injunction for patent infringement in the language of the Court chosen by the patentee.

19. Furthermore, how the Court will be funded is highly speculative, and is likely to result in significant additional costs being passed on to the parties. The CCBE report concludes at paragraph 5 that:

“The costs uncertainties are significant. ... Figures that have been presented are on such levels that SMEs (and others) will likely end up with higher costs than in single national proceedings ... The financial risk for SMEs to litigate in the proposed Court is therefore significant and probably in many cases not acceptable.”

20. The Patents County Court (“PCC”) has procedures and a costs regime specifically designed for SMEs and is currently working well. After a transitional period, the current proposal gives exclusive jurisdiction to the Unified Patents Court, even in respect of existing European Patents, and so will exclude the PCC.

THE ABSENCE OF SUITABLE JUDGES

21. Article 10(1) of the draft agreement requires that the judges of the Unified Patents Court shall “ensure the highest standards of competence and proven experience in the field of patent litigation.” Pursuant to Article 6, each panel must have a multinational composition. The Commission estimates that by 2022, when the transitional period ends, 101 full time and 45 part time judges will be required.

22. Patent expertise varies greatly between member states. In some countries, such as the UK, Germany and the Netherlands, there are many patent cases. In others, such as the Eastern European countries, there are very few.

23. Therefore the requirement for multinational panels of judges possessing the highest standards of competence in patent litigation is a pipe-dream. The quality of justice administered by any court is dependent on the expertise of its judges. It will be impossible to train such a large number of judges, who do not have the relevant experience, to an acceptable standard.

UNCERTAINTY AS TO THE PROCEDURAL RULES

24. It is foreseeable that the agreement will be forced through before procedural rules have been agreed. A current (un-agreed) draft of the rules is immensely complex, containing over 200 provisions. Yet none of the existing documents even address fundamental questions, such as third party liability for patent infringement (accessory liability), legal professional privilege etc. Principles will have to be developed from scratch through case law of the new Court, a process which will be unpredictable and expensive.

UNCERTAINTY AS TO LOCATION OF THE CENTRAL DIVISION

25. There is disagreement as to where the Central Division should be located. Germany, France and the UK are all bidding for it. If the Central Division is located outside the UK, there will be far less requirement for the high level of patent expertise that currently exists in this country. The location of the Central Division is crucial, as it will inevitably have significant influence on the practice and procedures of the Court.

CONCLUSION

26. The purpose of this evidence is to highlight fundamental issues with the existing proposal. However, it appears that the train has left the station and is not stopping. If the UK opts out, then it may be marginalised, as once the Court has been established, industry will require that it works. Intellectual Property is crucial to the UK.

27. A Unified Patents Court, if properly thought out, would be of great benefit to industry. But it should not have ‘Divisions’, only a single Court with a central registry which sits wherever is best for the case, using the language(s) appropriate or convenient for the parties, and with experienced judges.

28. If this is not possible, then we urge the Government to continue to press for the Central Division to be located in the UK, and to work with others to avoid the most serious consequences discussed above.

20 January 2012

Written evidence from the Chartered Institute of Patent Attorneys

INTRODUCTION

Summary

1. A “Unitary Patent” system for the European Union (EU) is proposed. This is to be introduced using the “Enhanced Cooperation” system by two European Regulations as well as a separate Court Agreement between the EU countries taking part (all except Italy and Spain). This paper sets out:

- I. The history and process (§§ 4–13).
- II. Evidence basis for this legislation and alleged cost savings (§§ 14–24).
- III. Constitutional points and Arts 6–8 of the Patent Regulation (§§ 25–31).
- IV. “Bifurcation” (§§ 32–34).
- V. Exclusivity and Transitional Provisions (§§ 35–44).
- VI. Supplementary Protection Certificates (§§ 45–48).
- VII. Other matters (§§ 49–54).
- VIII. Conclusions (§§ 55–59).

2. The economic evidence for adopting the system as currently proposed is at best unreliable. We expect the proposed system to be less convenient, less flexible and more expensive, particularly for smaller companies. The law will become uncertain because certain aspects may be referred to the European Court of Justice (CJEU) for interpretation. Important questions as to how the system would work remain to be answered. If there are problems, the proposed system will be difficult and may be impossible to amend.

The Institute

3. This evidence is given on behalf of the Chartered Institute of Patent Attorneys (CIPA). CIPA was founded in 1882 and was incorporated by Royal Charter in 1891. It represents virtually all the 1,900 or so registered patent attorneys in the UK, whether they practise in industry or in private practice. Total membership is over 3,200 and includes trainee patent attorneys and other professionals with an interest in intellectual property (patents, trade marks, designs and copyright). It became, by the Legal Services Act 2007, the official regulator of the patent attorney profession in UK, its regulatory functions being carried out completely independently of the membership.

I. THE HISTORY AND PROCESS

4. Since October 1973, 38 states, including all Member States of the European Union (“EU”), have signed the European Patent Convention (“the EPC”). Importantly, the European Union was not a party to the EPC. The EPC provides for the current central procedure for granting European patents by the European Patents Office (“the EPO”). Although the granting procedure is centralised, the result is a bundle of national patents, each of which is subject to the law of the Member States in which the patentee claims protection. That is to say, a patentee might elect, when filing its patent application, for protection in the Netherlands, the UK and Germany. When the patent is granted, the patentee then has a bundle of national rights—a Dutch patent, a British patent and a German patent—each of which is subject to the national laws of the Member States for which it is granted, independently of the rights granted in respect of any other Member State. Where the same dispute is being fought in more than one country, then this country by country enforcement can be a costly, time-consuming exercise that can sometimes lead to conflicting decisions as between the courts of the Member States. (But this does not arise in all disputes.)

5. A proposed unified patent system has been in discussion for over 40 years—a system which would increase the cost-effectiveness, certainty and efficiency of enforcing patents in Europe. In 2000, the European Council officially reopened discussions on a proposed Community patent. That summer the Commission put forward a proposal for a Council Regulation on the Community patent which provided for the accession of the EU to the EPC and the creation of a unitary patent which would be granted by the EPO. In 2007 the Commission presented a document entitled “Enhancing the patent system in Europe” to the European Parliament. This proposed to create a unified system to enforce current European patents and the future Community patent. The Council also drafted an international agreement between the Member States, the EU

and other states party to the EPC which would create a unified court that could hear actions in relation to European and the proposed Community patents. In 2009, this led to further proposals by the European Commission for what was known as the European and Community Patent Court (ECPC), which included a separate proposed Regulation for a Community patent.

6. Following concerns by some Member States, including Ireland, Greece, Spain, Luxembourg and Italy, the European Council requested the opinion of the Court of Justice of the European Union “CJEU” under Article 218(11) TFEU over concerns that the draft agreement was incompatible with the EU and EC Treaties. On 8 March 2011, the CJEU found that the draft agreement was incompatible because it would deprive national courts of the power or obligation to refer a question of EU law to the court for a preliminary ruling under Article 267 TFEU: and if a decision of the unified patent court were to be in breach of EU law, it could not be subject to infringement proceedings by the commission nor could it give rise to financial liability on behalf of EU Member States.

7. It had become clear prior to the CJEU’s decision that a collective agreement between the EU and Member States in relation to the unitary patent and unified court would not be politically possible. Following the CJEU’s decision, on 10 March 2011 the Council authorized “enhanced cooperation” for unitary patent protection. “Enhanced cooperation” allows groups of Member States to integrate policies, even where other Member States do not agree. Italy and Spain brought actions against the Council arguing that the Council had misused its powers in instituting “enhanced cooperation”. These cases are pending.

8. Following the CJEU’s decision, the momentum to establish a unified patent court and unitary patent system increased rapidly. From the summer of 2011 to December 2011, numerous draft texts of the proposed Regulation establishing unitary patent protection and the Draft Agreement on the unified patent court were circulated. Despite being informed of numerous vital concerns⁸ with the various versions of the Regulation and Draft Agreement by judges, patent professionals and industry throughout this period, including a unanimous resolution by the Intellectual Property Judges Association, it came as a surprise to the profession when, on 2 December 2011 the European Parliament’s Legal Affairs Committee and the Polish Presidency declared that there was a “done deal on the EU patent”. Later that day it was announced by the Council that the following week they would agree on the seat of the unified patent court, the Proposed Regulations and Draft Agreement. On 5 and 6 December 2011, it was clear through various Council press releases and conferences, that there was substantial political pressure to agree on all elements of the package and initial the agreement on 22 December 2011.⁹

9. Disagreement on the location of the Central Division of the proposed Unified Patent Court by Member States slowed this process down. However, on 20 December 2011 the Legal Affairs Committee of the European Parliament approved all elements of the package. None of the issues raised by the patent profession had been addressed in the latest version of the Regulation and the problems, as set out below and in the written submissions of EPLAW and the IP Bar Association, remain. The story on the Draft Agreement is less clear—the latest version has yet to be seen by the public.¹⁰

10. Although it was hoped that under the Danish Presidency the rush to agreement on the proposals would be driven, not by political urgency, but by the objective of achieving an efficient, workable and cost-effective patent system, these fears nevertheless remain. Last week, the President of the European Commission, President Barroso, told Parliament:

“I call on the three Member States, France, Germany and the United Kingdom, who are holding this up over a site issue of some offices, to swiftly find a compromise. Frankly, it is not acceptable! It is not acceptable that such a crucial initiative is blocked over such a trivial disagreement. Europe needs to innovate to grow. And innovation is severely hampered by the current complex and expensive rules that we have been trying to overcome for decades. It is time now to make history and to score a victory for ambition, for common sense and above all for Europe’s innovators.”¹¹

11. However, the comment from President Barroso again confirms the patent profession’s and industry’s concerns that these proposals are being rushed through primarily to score a political victory, the objective of creating a cost-effective and user-friendly unified European patent system being put second.

12. We believe the process would have benefitted from more input from professionals such as CIPA. During the run up to the CJEU’s Opinion, we were informed that it was too early for us to provide detailed comments on the various draft documents. After Enhanced Co-operation was adopted, we were told that it was now too late.

⁸ These concerns are listed in this paper, as well in the submissions of EPLAW and Mr. Henry Carr QC.

⁹ This never occurred.

¹⁰ The lack of a current Draft Agreement highlights the lack of transparency which has beset the profession throughout the legislative process and negotiations. This has made it very difficult for the profession and industry to comment usefully on the proposals.

¹¹ Press Release dated 18 January 2012, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/13&format=HTML&aged=0&language=EN&guiLanguage=en>

13. Nevertheless, a group of professionals met in the UK and produced a detailed paper on key issues. Although this concentrated on the Court Agreement, comments were made on other issues too. Although some changes have been made to the Court Agreement, we have not seen a new text. Comments on the Draft Regulation seem to have had no impact at all.

II. EVIDENCE BASIS FOR THIS LEGISLATION AND ALLEGED COST SAVINGS

Costs, Benefits and Risks

14. Part of the unseemly haste to implement the new European Patent reforms seems to be a belief that a unified system will help the Eurozone out of its current economic difficulties. That belief is difficult to credit. Changes to the patent system may indeed help; but they may significantly hinder the economy if the changes are poorly formulated. How the new system will work remains unclear and so does its economic impact. For example, the official fees for registering and maintaining a patent is still unknown.

15. If done right, the Unitary Patent could be a real boon to the economy. However, as CIPA has previously made clear, we do not consider the current proposals to be the correct basis for establishing a unitary system. We should not change the present system for something worse.

16. Unless amended, the current proposals would be worse than the current system in that it would be:

- less flexible;
- more uncertain; and
- more expensive, both for obtaining protection and enforcing it.

17. Further, the potential economic benefits of the new system remain unclear.

18. We feel the impact assessments done by the Commission are of poor quality and based on information which is no longer current.^{12,13} Before the legislation is released from scrutiny the committee might require that a proper impact assessment be done of the effects of the new regime. This should consider the comparative:

- (a) costs;
- (b) speed; and
- (c) quality of decision-making, including the impact of the inclusion of Articles 6 to 8 (see paragraphs 25–31 below).

If legislation was contemplated in this country such an assessment would be done as a matter of course.

Costs

19. One can hardly doubt that, for those who protect their inventions in all countries of the EU, a unitary patent will cost less to register, less to maintain and less to transfer, than the 25 individual national patents it replaces. Such people will certainly save considerably. To date, they have been few and far between,¹⁴ (though there will certainly be more if the costs are sufficiently reduced).

20. We have seen no reliable estimates for renewal fees or of litigation. Nevertheless it is claimed that the new system will be considerably cheaper, to the particular advantage of smaller companies (SMEs).¹⁵ However, this claim is based on doubtful assumptions¹⁶. Comparisons are made between the cost of obtaining protection by 25 separate national patents via the EPO route with the cost of a unitary patent. This shows the unitary patent to considerable advantage—it could be much cheaper. But whether an SME necessarily needs

¹² We reference two papers from the Commission on the costs of the Unitary Patent. However, without knowledge of the fees, we may not know the real cost savings, if any.

http://ec.europa.eu/internal_market/indprop/docs/patent/sec2011-482-final_en.pdf and

http://ec.europa.eu/internal_market/indprop/docs/patent/studies/compact-cost%20-benefit-study-final_en.pdf

¹³ This paper sets out a view of when the court would be economic

http://ec.europa.eu/internal_market/indprop/docs/patent/studies/litigation_system_en.pdf. This report assumed that the EU would subsidise the Court. It contends that the Court is useful only if it reduces duplicated litigation. It estimates that 60–70% of German litigation is duplicated, but this assumption is not supported by evidence.

¹⁴ “...only around 1,000 patents out of approx. 50 000 annually validated patents (2%) are validated in all 27 Member States. Around 4,000 patents (8%) are validated in 13 Member States and 20,000 patents per year are validated in the largest five EU markets (40%). Approximately half of these patents are only validated in three Member States—an estimated 25,000 patents per year (50%).” EU Commission paper SEC(2011) 482 Final.

¹⁵ “By adopting the European patent, we will make it easier, quicker and cheaper to protect intellectual property; we aim to award the first EU unitary patent in 2013, saving up to 80% on the current cost. This will be as attractive to American companies as European ones—particularly Small and Medium-sized Enterprises.” Máire Geoghegan-Quinn, European Commissioner for Research, Innovation and Science, “Europe: Your Destination for Research and Innovation”; Destination Europe Boston, 20 January 2012.

¹⁶ Press releases (from the European Parliament and others), claiming that an EU patent will cost €650, as compared with a US patent costing around €1850, are based on a misunderstanding. They compare different items. The cost for the US patent is (apparently) an estimate of the total official fees from filing to grant. In comparison, the EU figure quoted is only the *extra cost of translations* (eventually to be) required to convert a *granted* EPO application into a unitary patent. A fair comparison would also have to include all the official costs of EPO prosecution, including at minimum a filing fee (€115), designation fee (€555) search fee (€1165), fee for examination (€1555) and fee for grant (€875), as well as (typically) the first two annual maintenance fees of €445 and €555 respectively. In any event, it makes no sense to ignore the major costs incurred in a (prudent) patent filing—professional fees.

protection in 25 EU countries is not considered. No inventions are ever protected in all countries where patents can be obtained. The cost of rights obtained is roughly proportional to the number of countries in which patents are sought. The additional value of extra rights falls rapidly. An SME with a significant invention will rarely be well advised to file in all countries of the European Union. It is often a better use of limited funds to file only in a few of the larger countries of the EU, those in which competition is likely to be most important. Under current law, for patent purposes, the EU is not a single market: goods produced legally in a patent-free EU country cannot be sold unlicensed into another EU country where they are patented. Such limited filings may be as cheap as, or cheaper than, obtaining a unitary patent.

21. Another disadvantage of the unitary patent may be maintenance fees. Again, these are likely to be significantly cheaper under the unitary patent system than for separate protection in each of the 25 countries. They are unlikely to be cheaper than total renewal fees year on year in a smaller selection of countries. And the unitary patent will be less flexible. If the patentee needs to economise, with a selection of countries he can abandon the less vital rights, and keep the others: with the unitary patent, the only choice is to pay in full or lose all rights.

22. Thus simply to show that complete coverage over the EU will be cheaper under the new system is inconclusive. It could assist large companies who routinely file in all EU countries (for example, drugs firms). It is much less clear that it will save money for SMEs. In any case, any savings on registrations or renewals could go by the board, should the cost of enforcing the patent be prohibitive, or the patents be rendered valueless by perverse decisions.

Litigation

23. The proposed Court system is intended to be practicable and affordable. But there are no reliable estimates of costs here either. Originally the European Union planned to contribute to the costs, but following the CJEU Opinion, the Commission is no longer a party to the Court Agreement and will not be contributing to the costs of setting up this system or training the judges. It therefore appears that much of the costs of setting up and running the courts, which will fall on national governments, will be passed on to litigants. Litigation before the new Courts will be heard by a panel of three or four judges, which (however desirable in a new multinational system) must be more expensive than a single judge. The benefit will be that one action and one decision will replace litigation in several countries. However, such multiple litigation is not at all common (no firm figures are available, although some estimates are no more than 5–10% of patent litigation is duplicated in other Member States), and normally undertaken only by large companies. Such companies have the necessary financial resources and (perhaps even more important) the available manpower. Patent litigation can take up much staff time, which smaller companies cannot spare. So any benefits here are at best unclear.

Economic benefits

24. The Hargreaves Report suggested that a Unitary Patent system would be worth £2.1 billion a year to the UK economy by 2020 (Hargreaves Report, Supporting Document EE: Table, page 2 line 2; Discussion, pp 7–8). There is a strong argument to proceed, if that forecast is reliable. However, we doubt this. The benefits are said to arise by making life easier for small companies, a major source of economic growth. However, we do not see that the proposed changes will on balance make life easier for smaller companies. We think they may make things worse. We note that the Hargreaves Report was completed in the early months of 2011, before details of the current proposals were available. We do not know what assumptions were made about how the Unitary Patent would work, or how the changes would affect small companies. It would be understandable if in these circumstances projections were too optimistic.

III. CONSTITUTIONAL POINTS AND ARTICLES 6–8 OF THE PATENT REGULATION

25. CIPA has had the benefit of seeing the written submissions of EPLAW and Mr. Henry Carr QC to the Committee. CIPA unreservedly agrees with their comments in relation the problems associated with Articles 6 to 8 of the Proposed Regulation.

26. The inclusion of Articles 6 to 8 in the proposed Regulation means that the interpretation of the meaning of what constitutes infringement of a unitary patent will be subject to the preliminary ruling jurisdiction of the CJEU. This will result in three considerable problems—increased delay, increased cost and increased uncertainty.

27. Preliminary ruling references to the CJEU have the effect of suspending the litigation between the parties. Once the CJEU has ruled, then the national litigation must restart, in order for the opinion of the CJEU on the points of law to be applied. Those preliminary ruling references are, as Mr. Carr says, “notoriously slow” and can delay proceedings for years leaving both parties in an ambiguous “no-man’s zone” in respect of their legal positions and in turn greatly impacts their, and third party, participation in the marketplace. This delay can have a significant impact on patent rights which, unlike trade mark rights that can last indefinitely, are of limited duration—20 years. With delay can also come increased expense, as further legal fees are incurred and interest on damages or undertakings accrue.

28. In other areas of intellectual property, namely in trade mark law, opinions from the CJEU have created a body of law which is often unclear, unformulated and devoid of any basis in the provisions of Community legislation and the recitals which aid its interpretation. The very nature of a CJEU reference means that the Court is giving very broad guidance on the interpretation of EU law. It thus does not address, with the required specificity usually demanded by cases, the complicated issues of law and fact at issue. The problems which broad guidance on the interpretation of law can create is likely to be compounded by the fact that the judges of the CJEU, although skilled, will not be equipped with the necessary experience in the field of patent litigation that the referring judges are required to possess under Article 10(1) of the Draft Agreement.

29. Further, when the CJEU issues an opinion it is for the referring national courts to apply that opinion to the facts of the case under their national law. This application can vary as between Member State's national courts, and indeed even as between judges within the same jurisdiction. This has already created substantial uncertainty in other areas of intellectual property law, notably trade mark law and the laws of copyright. Further, the application of a CJEU opinion by courts may never occur in instances where the parties settle a dispute following the opinion—again leaving the status of law unclear.

30. Such legal uncertainty can lead to more litigation between parties attempting to clarify their respective legal position. It can also prevent parties from entering a market in which they would be free otherwise to compete but for the uncertainty of the legal position and the threat of litigation. Both outcomes increase costs and can damage innovation and the functioning of the market, especially for SMEs.

31. The consequences of this system—increased delay, increased uncertainty, and increased costs—threaten to be replicated in the patent field if Articles 6 to 8 are not deleted from the Proposed Regulation.

IV. "BIFURCATION"

32. This is the system whereby validity of patents is judged separately from infringement—in separate trials, in different courts. It is an important feature of German (and Austrian) procedure, and quite foreign to other countries. In its favour is urged that it simplifies matters—and so it does, for the patentee. But, according to British ideas, it is quite unfair to the party accused of infringement. If the patent is invalid, it cannot be infringed. The infringement trial (in Germany) is faster than the validity trial. Infringement may be found (and the "infringer" required to cease operations and pay damages) well before the patent is proved to be invalid in the validity trial. An even stronger objection is that the patentee can put a different case in the two trials—particularly about what the patent means. In the infringement trial he will seek to interpret the scope of protection as broadly as possible, so as to cover what the defendant does: in the validity trial he will argue for a narrow meaning, so not covering what has been done before (even if this is similar or even identical to what the defendant has done). Trying validity and infringement together is intrinsically fairer because the patentee must then argue only for one consistent meaning.

33. The availability of bifurcation in Germany will powerfully affect the way the new Court arrangements operate. Patentees will be advised to file their infringement suits in Germany wherever possible. This will be particularly inconvenient for small companies from other countries, which will have extra expense in dealing with overseas proceedings not in their own language. They may be able to get the suit transferred from the local German division of the European Patents Court to the Central Court, so that infringement and validity can be considered together—but arranging the transfer will itself cause added trouble and expense. A cheaper alternative may be to concede the case unargued. This is a discouraging outlook for small companies.

34. Larger companies are also worried. They fear that "trolls" (companies who buy up patents from a variety of sources, not to develop new products, but in the hope of extracting licence fees from those who do) may be encouraged by "bifurcation" to step up their activities in Europe. Just how troublesome this may be would depend on the rules of the new Courts (not yet available).

V. EXCLUSIVITY AND TRANSITIONAL PROVISIONS

35. Patents can protect considerable income streams for 20 years into the future. However, patent attorneys have to advise clients at the outset what to file and where to file. Our members are trying to advise their clients now on what they should be doing in order to protect themselves for the next 20 years: should they file through national patent offices or the EPO?

36. To answer that, patent attorneys need to have an idea of both the application process and what happens post-grant—ie how enforcement is carried out. When the EPO started, many applicants (if they could afford to) hedged their bets and filed cases twice—once via the National route and once via the EPO. There was duplication, but it reduced risk—it meant that users could compare the systems and decide whether the EPO was working properly before they had to commit. As users got used to the EPO, this practice reduced. But with the new European Patent Court system as currently proposed, we may end up resurrecting this wasteful practice.

37. If it turns out that, for EPO-granted national patents, the new European Patents Court does not do as effective a job as the national courts it is seeking to replace, then users will want to fall back on the original system—national patents granted by the national patent offices and enforceable through national courts. This decision has to be made early in the life of each invention. It cannot be unmade later. Patent law prevents a later filing for the same invention.

38. So users seek the right to opt out of the European Patents Court system until it has developed a track record. If the track record is weak, then they want to be able to opt out for good.

39. However, this is hindered by two provisions—the exclusivity of the European Patents Court (for all infringement and validity litigation both on unitary patents and on national patents granted by the EPO) and the short transitional provisions. No doubt both of these provisions would help to ensure that the new European Patents Court has customers. But it should gain these on merit, by competing effectively with the national systems, and not by coercion. The EPO has been a remarkable success, without coercion. As an optional new system, competing with national patents, it has won the trust of users (who retain the opportunity to file for patents nationally). It is now a cornerstone of the European patent regime. But if the new Court system doesn't work, it could be severely damaged, because in order to avoid that system, inventors will have to bypass the EPO.

40. The uncertainties are numerous. No one knows yet how the European Patents Court will function or what it will cost. Whilst it is expected to be cheaper than litigating the same patent in three or four different EU member states, it is unlikely to be cheaper than litigation in one member state only. Will cases take longer than they do at present? We don't yet know the Court rules, which will be a key determinant of quality. Such uncertainty as to the quality of the court and system may well mean that many companies will choose to pursue litigation through the national route for many patents in order to avoid the new court.

41. Of critical importance is whether the enforcement regime will be good for SME's or whether they will find themselves priced out of patent litigation. Can a three-judge, local, regional or central division really be as efficient, flexible and responsive as the Patents County Court? We doubt that this could ever be the case. So an assurance that the PCC will retain its jurisdiction for EPO-granted patent disputes during the transitional period is not enough.

42. These problems would be easily solved by making the European Patent Court's jurisdiction non-exclusive.

43. If the intent ultimately to grant the European Patents Court exclusive jurisdiction over the patents granted by the EPO remains, then the transitional provisions and ability to opt out (or back in) during the transitional period should last much longer. We need to know the track record of the European Patents Court over at least a decade before any such exclusivity starts, and then the compulsion should only relate to applications filed after the end of that transitional period and not to all then pending applications and granted patents.

44. It may be objected that if serious difficulties arise, the system could be amended. We strongly doubt whether this would be easy or even possible. To amend the Court agreement would require unanimity of the parties.

VI. SUPPLEMENTARY PROTECTION CERTIFICATES

45. Supplementary Protection Certificates ("SPCs") are a form of patent term extension which can be obtained for certain pharmaceutical and agrochemical products. The extension compensates for the time taken to obtain by regulatory approval. These rights mean a great deal to drug developers.

46. Currently the EU SPC regime relies upon patent owners or their licensees seeking the patent term extension once they have been awarded a national or EU regulatory approval. SPCs are granted by national patent offices on national patents, whether granted by them or the EPO.

47. This regime will not extend to the new EU patent. A new regime is required. This is not simply a case of needing to adapt the current regulation to cover the EU patent as well as the national patents, an authority which will grant and administer the SPCs must also be established. Will this go to one national patent office? Delegating this to the EPO may not be acceptable as the EPO, which is not an organ of the EU, has no experience whatever of dealing with SPCs. Further, the decisions of national patent offices are then appealable to the national courts, with referrals available to the CJEU. What will be the appeal route for a refusal to grant an EU SPC? Should that go to the European Patents Court? Or direct to the CFI?

48. A further complication is that an SPC is based both on a patent and on a regulatory approval certificate. Many (not all) of such certificates are issued by national regulatory authorities. Will such national certificates serve to extend the unitary patent throughout the EU?—or only in the country issuing the certificate (in which case the patent would no longer be unitary)?

VII. OTHER MATTERS

Interaction with the EPC and the EPO

49. In the leaked Opinion of the Advocates-General in August 2009, statements were made about the need for the powers delegated by the EU to the EPO to handle EU Patents to be overseen by an EU court. The CJEU did not address this point in their final opinion. The EPO is not an EU organisation and has 38 Member States, 11 of which do not currently belong to the EU. So it is by no means clear whether or how this system can operate in practice. In effect, the EU may be asking the EPO to run one system where the patents are to

be unitary patents and a second system for all its other member states. We also believe there are other inconsistencies between the Regulation and the EPC, which need further review.

50. The new European Patents Court will be overseen by judges qualified in patent law. The experience of both the United Kingdom and numerous other EU Member States is that the appointment of specialist judges in this field generally results in quicker trials. The judges are already familiar with patents (their structure and language), the appropriate law and civil procedures. This results in high-quality decisions.

51. However, to get the most out of a specialist system, it is also important for the cases to be properly presented. Patent attorneys represent clients in patent matters in this country. The English judges have recognised that patent attorneys perform better than solicitors who are not familiar with patent law. The EPLAW proposal does not require lawyers to show any knowledge of patent law—and yet this highly specialised area is the key issue in any dispute before the European Patents Court.

52. At the moment, the draft court agreement grants patent attorneys the right to represent parties in disputes in the European Patents Court, albeit that they may need a further qualification—perhaps similar to that already obtained by patent attorneys in this country who wish to act in the High Court.

53. Even if other matters can arise, disputes before the European Patents Court will centre on patent infringement and invalidity, core areas for a patent attorney's practice. Litigation is often conducted by teams, and if other topics arise the team can be augmented—but it should still be run by someone who has a detailed understanding of the key patent issues.

German Property Law to apply to patents from overseas

54. The default position for all non-EU businesses is that German property law will apply. The drafting in the regulation, and the effects this may have, are still not clear. The original provisions in the Community Patent Convention, where a non-EU party could select the relevant property law by selecting an attorney in the appropriate jurisdiction, would be clearer and fairer.

VIII. CONCLUSIONS

55. The current drafts of the Proposed Regulation and Draft Agreement, as currently drafted, will create a system which is the antithesis of the system that was intended to be created. The economic evidence for adopting the new system is doubtful at best. We expect it to be less convenient, less flexible and more expensive, particularly for smaller companies. The law will become uncertain because it is to be decided by the European Court of Justice (CJEU). Important questions as to how the system would work remain to be answered. The current proposals create a system that could be a playground for patent trolls, while legitimate investment in patent protection and enforcement in the EU could decline.

56. Europe's judges, patent profession and industry have repeatedly informed national governments and European legislatures of the systemic problems with the current proposals and solutions to these problems. The current proposals require careful consideration by experts, instead of a rush to politically acceptable but economically damaging compromises.

57. CIPA again urges that the full package for this legislation is properly thought through, with all parts being prepared, so that the package can be looked at as a whole, before it is adopted.

Once that is done, we believe that an effective system would be achieved. In that context, it makes sense for international business that the Central Division of the European Patents Court be located in London.

58. For these reasons, we feel that this legislation is not yet fit for purpose and more work is required if we are to create a patent system which will enhance the creativity of European businesses.

23 January 2012

Further written evidence from the Chartered Institute of Patent Attorneys

We have been asked to comment briefly on the Minister's statement of 30 January.

- We note that the case made is political, rather than economic. Nothing at all is said about economics.
- The statement is strong on hopes, and weak on certainties. ("*opportunity*...for practice to converge"—Para 4; "*intended* to be self-financing"—Para 5; "*expected* to pool resources"—Para 6; etc [emphasis added]). There are too many opportunities for things to go wrong.
- The danger from bifurcation is grossly underestimated. What has arguably worked adequately in Germany will not translate to Europe as a whole. No account is taken of AIPPI's point—that (wherever the Central Court goes) patentees will sue in Germany whenever they have the chance. Industry fears that this will encourage the strong to oppress the weak, and "trolls" to make life miserable for everyone else.

- If the system proves not to work, we have no redress. A “review” alone (Para 11) is not enough (reviews rarely change things much). Instead, the review should provide member countries the opportunity to change or leave the system.
- We repeat that in principle a unitary patent is a valuable objective, and much progress has been made. But there is too much wrong with this proposal as it stands. More time is needed to get important details right.

31 January 2012

Further written evidence from Dr Christian Gassauer-Fleissner, Chairman of the European Patent Lawyers Association

I would like to comment very briefly as follows. I am following the numbering in the memorandum of Baroness Wilcox:¹⁷

4: this highlights one of the major concerns. It is not possible to vote for a new system when it is not known whether one of its main targets, ie reducing costs for the parties involved will be met. As I said I firmly believe that at least for quite a few countries the costs will increase. Sections 5 and 6 deal with the costs the member states may have to carry and by referring to the intention that the court shall be self financing it is obvious that there is a major risk that the costs for the parties to a patent dispute will rise substantially.

7 and 8: First, this is interrelated with section 4. Second, there is at least one very likely scenario that proves section 8 to be inaccurate. If for example a SME infringes on its home market (eg the UK) where this SME has its major market but also has a few exports to, say, Estonia, under the current system the English SME can let go Estonia and fight the case before the Patents County Court. Under the new system the English SME may find itself in the position that it must defend its position for the entire European Union including the UK before the local division in Estonia (I note that according to my understanding all member states except one so far declared that they want to have their own local division).

11: the transitional period is much too short even if it is seven years. Experience shows that infringement cases very often are initiated rather at the end of the duration of patent protection. Accordingly, it is quite likely that a sufficient number of cases will only be decided in 15 or more years in order to really evaluate the new system.

13 and 14: this is in no relation with one of the comments EPLAW made on this issue. This concerns the lack of experience at the level of the ECJ. Even if after a while by the training efforts addressed by Baroness Wilcox there will be available a better level at experience at the level of the local divisions, this will not apply to the highest instance, ie the ECJ.

20ss: It is indeed striking that the Commission does not bother to present support of its view on this crucial issue. Bifurcation (whether in its present form as in Germany and Austria or in the form provided for in the drafts) never can support the inclusion of articles 6—8 into the draft Regulation. This becomes evident from the fact that many crucial issues related to infringement (eg interpretation of patent claims etc (see the opinion of Prof Krasser)) will not be included in the Regulation. I also disagree with the deliberations in section 22. Because articles 6 to 8 would be new body of law there is a risk (or even a need) that the meaning of this has to be interpreted from scratch. Each and every defendant will try to delay things with this argument. So, on the one hand there will have to be built up new case law which took decades under the current system. On the other there is a big risk that the interpretation by the ECJ will lead to different results than the bulk of precedent cases under the existing system. At the end infringement under EU law will be different from infringement under EPC law.

31 January 2012

Further written evidence from Henry Carr QC, Chairman, Intellectual Property Bar Association

BIFURCATION

1. It is true that different countries have different traditions concerning bifurcation. However, the Unified Patents Court proposal raises a new and very serious issue. Under the existing system, if a case is bifurcated in Germany and an injunction is granted against infringement, the injunction applies to Germany alone. Under the new proposal, if a case is bifurcated, the injunction applies to all countries to which the unified patent extends. Therefore, an injunction may be obtained in eg Estonia, which applies to a factory in the UK. Some years later, when validity is considered, the Central Division may decide that the patent has always been invalid. However, the UK factory will have been shut down by then.

¹⁷ Ev 48

COSTS OF LITIGATION IN THE UPC

2. The professions and industry have already commented on the uncertainty of the costs of litigation, and the likely increases due to increased court fees and translation costs.

EFFECT OF THE UPC ON SMEs

3. The advantage of the UPC is said to be the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions. However:

- The patentee will have the choice of where to sue. The SME will have to defend itself in the language of the country chosen by the patentee. As explained above, if the SME loses on infringement, the injunction will be pan-European. The effect of forum shopping is far worse than under the present system.
- Because of bifurcation, the SME may have to pursue validity at a subsequent date before the Central Division, in a different language.

EFFECT OF THE UPC ON THE PATENTS COUNTY COURT

4. Because of the requirement of exclusive jurisdiction, after the transitional period, the Patents County Court will no longer exist for European and Unitary Patents. The new structure (local, regional and central divisions) is far more complex and less cost effective than the PCC.

ABSENCE OF JUDICIAL EXPERTISE IN THE UPC

5. This is a real problem. The quality of justice depends on the quality of judges. The proposal is to have multi-national panels. How will sufficient judges from so many countries gain the relevant experience, which takes many years of practical exposure to patent litigation?

SPCs

6. I agree with the Memorandum that there is a lack of clarity about how the current system of SPCs will apply to the unitary patent. SPCs (which extend the life of pharmaceutical patents to compensate for the years lost in obtaining authorisation to market the drug) are vital for the pharmaceutical industry.

LOCATION OF THE CENTRAL DIVISION

7. The IPBA welcomes the fact that the Government is bidding for the Central Division. This is crucial. The European Patent Office in Munich employs at least 7,000 people, and apart from the Commission, is the largest European Institution.

8. If London does not get the Central Division, this will mean that the high level of expertise that exists in the UK in Patents will be lost, and the importance of the UK to patents will be seriously diminished.

9. Having two or more central divisions, which include London, would be better than nothing.

UPC RULES OF PROCEDURE

10. No further comment.

ARTICLES 6–8

11. I note the opposition of the Government to the inclusion of Articles 6–8, and that, in spite of this opposition, the Articles are still within the text of the Regulation.

12. The Memorandum sets out two arguments that might be put by those who support inclusion, although there is no published body of expert opinion which supports them. The first argument is that the provisions on infringement set out the very core of an IP right, and therefore it is crucial that they appear in the EU legislation establishing the unitary patent.

13. I know of no body of opinion which considers infringement to be more important than validity. If a patent is invalid, it cannot be enforced against anyone. If a patent is not infringed by a particular defendant, it may still be enforced against others. The fact that some countries bifurcate is in no sense an indication that infringement is more important than validity. Yet provisions on validity are not included in the Regulation.

14. The second argument is that the number of references to the CJEU will not be significant, as it will only be necessary in cases where the provisions are unclear, which will be few, given the experience of specialist judges.

15. This misunderstands the criteria for references to the CJEU. A reference must be made unless the interpretation is *acte clair*. *Acte clair* only applies where a judge is sure, not just as to how he/she would interpret the provision, but also as to how it would be interpreted by all other member states. This has led to a large number of references in relation to the Trade Marks Directive, and published expert Opinion, including that of Sir Robin Jacob, emphasises that this will be the case with Arts. 6–8.

16. There is a clear alternative to the inclusion of Articles 6–8 in the Regulation, which will still achieve a uniform interpretation of the infringement provisions. The provisions can be interpreted by the Court of Appeal and Central Division, which are being established by the current proposal. In these courts (unlike the CJEU) the judges will have specialist expertise in patent law.

CONCLUSION

17. The current proposal for the unitary patent and unified patents court has fundamental flaws. The UK Government has tried to improve the position, but the problems still remain.

18. If the Central Division is in London, it will be possible to mitigate some of these flaws. Further, the UK will be central to patents and patent litigation. If not, then the proposal gives no benefit, and much disadvantage, to the UK economy.

31 January 2012

Further written evidence from Baroness Wilcox, Minister for Intellectual Property, Department for Business Innovation and Skills

INTRODUCTION

1. The European Scrutiny Committee heard evidence from the Chartered Institute of Patent Attorneys, the IP Bar Association, and the European Patent Lawyers Association on 25 January, and has received written evidence from these bodies as well as from the IP Federation, the AIPPI, the IP Lawyers Association, and the CBI. These organisations, along with other industry associations, are all represented on the Intellectual Property Office's consultation group which meets regularly to discuss the patent and court negotiations. The Government takes account of the views received from these users of the system which contribute to and inform our negotiating position. We also take into account the wider public interest and have to bear in mind the positions of our negotiating partners as well as the overall political context.

2. This memorandum is intended to respond to the concerns highlighted by stakeholders in their evidence to the Committee. Those concerns, as highlighted in the Committee's letter of 25 January 2012, are as follows:

BIFURCATION

3. As the Committee heard from witnesses on 25 January, there are strong traditions elsewhere which favour bifurcation. The draft Agreement does provide options for the local divisions and central division to choose how to treat cases when infringement and validity are both in dispute. In some countries, such as Germany and Austria, under the current system local courts deal primarily with questions of infringement. If the validity of a patent is called into question then another court must rule on that issue, for example the Federal patent court in Germany. In the United Kingdom the Patents Court and the Patents County Court will usually consider both aspects of a case at the same time if invalidity is raised as a defence to infringement. But the different divisions of the Unified Patent Court are not local national courts and will have panels of judges from different nationalities. So there is an opportunity here for practice to converge across the different divisions of the patent court as judges from different national backgrounds work together.

COSTS OF LITIGATION IN THE UPC

4. We cannot give a definitive view of the costs and benefits, at least in monetary terms, as fees for the patent and the court are still to be decided.

5. The court is intended to be self financing from court fees in the long run. However, the participating Member States will contribute to the set up costs during a transition period when the court will not be self-financing. Member States will also be required to make special contributions to the budget in the event of a financial shortfall.

6. All those involved in the negotiations are committed to reducing the cost. For example, many Member States that currently experience low levels of patent litigation are expected to pool resources into regional divisions or may opt to have no local or regional division at all. In the latter case, disputes would be heard instead by the central division. This would reduce the overall cost of the Court system.

EFFECT OF THE UPC ON SMEs

7. Under the new system, SMEs will have the possibility of one decision in one place, rather than being sued, or suing others, in several different European jurisdictions.

8. There is a very strong commitment from all involved in negotiations that the system should be affordable for SMEs. It should certainly work out cheaper for one case with a decision applying in several states than it does to have the same case dealt with in several different national courts as at present.

EXCLUSIVITY AND TRANSITIONAL PROVISIONS

9. The question of exclusive jurisdiction of the unified patent court was already raised much earlier in these negotiations, before the reference to the Court of Justice in Opinion 1/09. The counterarguments then were that the new system needs a good input of cases to be able to build up a consistent and uniform practice across all divisions, and that is surely still true.

10. However, in order to give the new system time to establish a good reputation for high quality judgements, a transition period during which patentees can opt-out their non-unitary European patents has been included in the draft Agreement. Users have argued that the transition period of five years is too short, that European patents granted during the transition period should be eligible for the opt-out and that the system should allow flexibility for patentees and applicants to opt back in.

11. All three of these suggested improvements have been included in the latest proposals. An amendment to article 58 of the Draft Agreement has been proposed that would see the transitional period increased to seven years (rather than five), during which proceedings concerning non-unitary European patents may be initiated before national courts, and holders of European non-unitary patents and patent applications may opt-out from the exclusive competence of the court (they may also opt back in). A review will be carried out five years after the entry into force of the Agreement, with the possibility of prolonging the transitional period by up to another seven years.

EFFECT OF THE UPC ON THE PATENTS COUNTY COURT

12. The opt-out available during the transition period will allow SMEs who are patent holders or who are initiating cases to continue using the Patents County Court for a decision in respect of the United Kingdom. We also hope that the example of the Patents County Court will make a strong contribution to the Rules of Procedure which are being developed for the Unified Patent Court. There is already provision for a cap to be put on legal costs to be borne by a losing party, which is one of the areas where reforms were recently introduced in the Patents County Court.

ABSENCE OF JUDICIAL EXPERTISE IN THE UPC

13. Many users and practitioners of the patent system have raised concerns about the lack of experienced patent judges across the EU. The various panels of judges in each division will require judges from different countries but only a few Member States have a strong tradition in patent litigation and could provide the necessary expertise.

14. The number of judges we need will depend how many divisions there are. But given the transition period, when national courts are also available, we won't need all the patent court judges to start at once. We can start training as soon as the court is agreed. Besides our own expert judges, there are already 150 patent judges in the German federal patent court, and states where there is little patent experience are keen to develop that expertise. All the participating Member States are committed to beginning training judges as soon as the court Agreement is signed. This would ensure that enough suitably qualified and experienced judges would be able to start work as soon as the new system comes in to force. The provision of training for judges has been a key concern of smaller Member States throughout the negotiation.

SUPPLEMENTARY PROTECTION CERTIFICATES (SPCs)

15. There is currently a lack of clarity around how the current system of SPCs will apply to the unitary patent and the pharmaceutical industry is quite rightly concerned. We need the Commission to bring forward legislation to extend the availability of SPCs to the new unitary patent, and the Commission has signalled its willingness to do so.

LOCATION OF THE CENTRAL DIVISION

16. Evidence received from stakeholders on the benefit to legal services business of hosting the central division of the Court has helped inform the Government's position in bidding for London. As the committee is aware Germany, France and the Netherlands have also made similar bids.

17. The location of the Central Division of the UPC is a major issue that remains to be resolved and the negotiations are still ongoing. The Danish Government, which took over responsibility for coordinating the negotiations on the Court Agreement on 1 January 2012, are seeking a way to resolve the issues that still have

to be agreed by the end of their term in June. That includes the location of the central division but also other issues—for example around financing; entry in to force; and the Rules of Procedure. Securing the Central Division for London is still an important priority for the United Kingdom.

UPC RULES OF PROCEDURE

18. The Rules of Procedure, which set out how the Agreement will operate in practice, were previously taken forward by an expert group of stakeholders advising the Commission. We understand that members of that group have been invited to a meeting on 3 February to continue their work.

19. We have been clear during the recent negotiations about our wish to see and consider a draft set of rules before signing the court Agreement.

ARTICLES 6–8

20. We entirely understand the issue on Articles 6–8 of the patent Regulation and have raised it directly with successive Presidencies, the Commission, and others involved in the negotiations. Among our negotiating partners and within the EU institutions there has been insufficient support to change the text by deleting these articles from the regulation, even if there is no published body of expert opinion to compare with the papers produced by Professor Sir Robin Jacob and others. Moreover, while we have taken opportunities to raise this issue with our counterparts, the general approach on the patent regulation agreed at the Competitiveness Council of 27 June 2011 did include these articles within the text of the regulation. I represented the United Kingdom at that meeting and mentioned the need to revisit these provisions at a later stage.

21. Although there is no published body of expert opinion there are probably two main arguments that would be put by those who do support inclusion of Articles 6–8 in the regulation. One argument might be that provisions on infringement set out the very core of an IP right, and therefore it is crucial that these provisions appear in the EU legislation establishing the unitary patent. In the United Kingdom it has always been the case that we see infringement and validity as two sides of the same coin, and so they should go together, but this is not the case in some other significant jurisdictions, such as Germany already mentioned, and as the Committee heard on 25 January.

22. Another argument might be that the effects would not be as damaging as people fear. Of course there must always be provision to refer questions to the Court of Justice when they concern the interpretation of EU law. In the case of the infringement provisions in the patent regulation, it has been suggested that the Court of Justice will only receive requests for a preliminary ruling if a judge feels that the wording of those provisions is unclear, and given that specialist judges will have experience of patent infringement cases, the number of references should not be significant. Equally the time taken for a reference to the Court of Justice is reported to be running at around 16 months, which would be considered speedy under some national traditions.

23. These are arguments we would need to overcome to get these provisions changed.

CONCLUSION

24. The unitary patent and unified patent court is a priority in the Government's growth agenda. Indeed the United Kingdom has been in the forefront in taking this forward. There is no doubt that a well-functioning unitary patent and court system will save businesses the cost and burden of maintaining and enforcing their patents separately in different countries. It will also help those who want to challenge invalid patents which hinder legitimate business.

25. We must give UK companies the same access to a single patent system for Europe that they would have in the United States or China, to support innovation, growth and competitiveness.

26. But these negotiations are not straightforward. Our European partners have a wide range of legal traditions, some very different to our own, and we have to balance the interests of patent holders, competitors and consumers. All these factors influence the ultimate design of the new system.

27. The negotiations are ongoing and the Government will continue to work hard to ensure that the interests of UK industry are protected before we sign any final agreement.

30 January 2012

Further written evidence from Henry Carr QC, Chairman, Intellectual Property Bar Association

INTRODUCTION

1. Following my oral evidence to the European Scrutiny Committee on Wednesday 25 January 2012, I have been asked by the Committee to provide further evidence on the following questions:

- (i) The location of the Central Division (and Court of Appeal) and the extent to which it will enhance the economic prosperity of the country where the Central Division is located.
- (ii) Whether Europe as a whole, or alternatively particular countries, are likely to benefit from the current proposal.
- (iii) The position taken by Italy and Spain in relation to Unitary Patents.
- (iv) The alternative to the inclusion of Articles 6–8 in the Regulation, and the extent to which this alternative has been considered by the Commission.
- (v) Any other issues that occur to me following the Committee’s line of questioning, including reasons why member states are keen to press on with the proposal and the effect on UK interests.

Impact of the location of the Central Division/Court of Appeal of the Unified European Patent Court

2. Annex I is a briefing note that I have received from the Intellectual Property Lawyers’ Association (“IPLA”)¹⁸ concerning the benefit to the UK of securing the Central Division. The essential points are as follows.

3. Although estimates vary, the current annual spend by industry (much of it from overseas) on patent litigation and associated advisory services in the UK is about £700 million. If the Central Division is located outside the UK and, if, as a result, most litigation is conducted elsewhere, this is projected to decline significantly. By contrast, the volume of patent cases heard in the UK (and consequent annual spend) may increase considerably, if the Central Division is located here. This seems conservative, as all validity challenges and all declarations of non-infringement will be heard by the Central Division.

4. The Central Division will create a significant number of highly skilled jobs. By way of comparison, the European Patent Office is located in Munich and employs at least 7000 people (the briefing note suggests a higher figure). Four times as many German nationals are employed at the EPO than UK nationals. Whilst the Central Division will not require as many staff, it is likely to be a major European institution, with consequent indirect enhancement of its location. As previously noted, if the Central Division goes to Germany, the bulk of the patent system, from grant to enforcement would be there.

5. If the Central Division is not in London, the current proposal will bring no benefit to the UK and considerable disadvantage to the UK economy overall.

6. It is not clear that there has to be only one seat of the Central Division. One option would be for the Central Division itself to have separate “seats” of which one would be the UK. From a UK perspective, this would be better than nothing. Alternatives such as these have not been considered.

Whether Europe as a whole, or alternatively particular countries, are likely to benefit from the current proposal

7. For the reasons already given in my evidence, I do not believe that Europe as a whole is likely to benefit from the current proposal. Because of its fundamental flaws, it is likely to be significantly worse than the existing system. However, the country where the Central Division is located is likely to benefit disproportionately from a system which is, as a whole, worse (see above).

8. The CCBE paper expressed concern about forum shopping and SME defendants finding themselves brought into a remote forum. There is a real fear in some quarters that some SME’s will fold because they are unable to get themselves properly represented in a distant European division and/or, if subject to a Europe-wide injunction from a remote court in a bifurcated system on their main product line, will simply not have the funds (without a product to sell) to enable them to establish that the patent is in fact invalid within a reasonable time. That would amount to a denial of justice. I am not persuaded that this concern has been taken on board.

9. These concerns are not just shared by the professions and the judiciary. They have also been expressed by industry. For example, on 16th December 2011 the CBI and IP Federation wrote to Baroness Wilcox describing the current proposals as “deeply flawed” and that they would, if accepted create a patent system worse than at present. The letter was endorsed, *inter alia*, by the Bioindustry Association. There is anecdotal evidence that substantial research-based undertakings are so concerned that they have started to file national instead of European patents, in an attempt to avoid the system altogether.

¹⁸ IPLA’s members conduct most patent litigation in the UK.

The position taken by Italy and Spain in relation to Unitary Patents

10. For about the last 10 years, Spain has argued that the proposed Unitary Patent (previously named the EU Patent) should be filed in English as the sole language, or alternatively in all the official languages of the EU. Spain has consistently refused to accept a language regime comprising English, French and German but not Spanish. Similarly Italy has refused to accept a regime that does not include Italian.

11. As a result, on 10 March 2011 the Council of the European Union authorised “Enhanced Co-operation” in respect of the EU patent, a procedure whereby a group of Member States may go forward with a proposal notwithstanding that unanimous agreement between all EU Member States has not been reached. As Spain and Italy are not part of that group, the EU patent was re-named the “Unitary” patent. Spain and Italy have launched proceedings in the CJEU seeking to nullify the decision to adopt Enhanced Co-operation. Those proceedings¹⁹ are pending.

The alternative to the inclusion of Articles 6–8 in the Regulation, and the extent to which this alternative has been considered by the Commission

12. Annexes 2 and 3 are Opinions of Professor Sir Robin Jacob in relation to Articles 6–8 of the draft Regulation. The first Opinion sets out why the inclusion of Articles 6–8 would be (a) unnecessary and (b) disastrous. The further Opinion elaborates why Articles 6–8 are unnecessary, and answers an argument to the contrary from an unnamed source in the Commission.

13. An essential point is that Article 3(2) of the draft Regulation states that:

“A European Patent with unitary effect shall have a unitary character. It shall provide uniform protection and shall have equal effect in all participating member states”

14. It follows that, in the absence of Articles 6–8, the Regulation already provides for uniform protection, and no participating individual member state is free to “go it alone”. This applies just as much to infringement as to validity. As Sir Robin explains:

“Only valid patents can provide rights. It is just as important to unitary effect that the provisions concerning validity are uniform as that the provisions concerning infringement are uniform. If the logic of the author [from the Commission] is correct, it would also be necessary to provide in the Regulation for all matters concerning scope and extent of protection. This would mean incorporating the relevant provisions of the European Patent Convention. But no-one suggests that this is necessary.”

15. The next question is, what is the alternative to the CJEU to ensure uniform protection amongst participating member states? The answer is the Central Division and the Court of Appeal, which are being established by the current proposal. In these courts (unlike the CJEU) the judges will have specialist expertise in patent law. Further, it must be envisaged that these Courts will interpret the *validity* provisions to ensure “unitary character”. It is wholly unclear why a different regime is proposed in respect of the *infringement* provisions. Many granted patents are invalid upon analysis. Moreover, for many patent cases, validity and infringement are closely related.²⁰ The current proposal contemplates that the CJEU alone in the system would be required to consider the law of infringement but required *not* to consider the law of validity. Against that background, the proposal makes no sense at all.

16. In the Scrutiny Committee’s Report of 20 December 2011, it asked whether there was a body of countervailing expert opinion which welcomed the advent of the Court of Justice’s involvement. I have not seen any. Indeed, it is unclear whether any impact assessment has been done by the EU authorities of the effect of requiring the CJEU to determine questions of infringement when it cannot determine questions of validity, in the manner proposed.

17. I believe that the Commission is aware of the Opinions of Sir Robin Jacob, and of an Opinion to like effect by Professor Dr Rudolf Krasser of the influential Max Planck Institute. However, these views have been brushed aside, in spite of no published opinion to the contrary. Furthermore, the Legal Affairs Committee of the European Parliament is also pressing on with Articles 6–8. These Articles are likely to be contained in the Regulation, given that the major political groups are backing it, without any regard to its implications. Given the complexity of the law, it is for question whether those political groupings fully understand their implications.

¹⁹ C-274/11 *Spain v Council*; C-295/11 *Italy v Council*.

²⁰ The ECJ noted in *GAT*, Case C-40/03 at paragraph 17: “In practice, however, **the issue of a patent's validity is frequently raised as a plea in objection in an infringement action**, the defendant seeking to have the claimant retroactively denied the right on which the claimant relies and thus have the action brought against him dismissed. The issue can also be invoked, as in the case in the main proceedings, in support of a declaratory action seeking to establish that there has been no infringement, whereby the claimant seeks to establish that the defendant has no enforceable right in regard to the invention in question.” (emphasis added). That case, which concerned the rules of exclusive jurisdiction under the Brussels Regulation and not the substantive law on infringement, itself illustrates the problems in dividing determination of validity and infringement.

Any other issues that occur to me following the Committee's line of questioning, including reasons why member states are keen to press on with the proposal and the effect on UK interests

18. The current proposal is moving forward relentlessly, in spite of a groundswell of objections from the IP judges throughout Europe, the professions and industry. It was suggested in oral evidence by Mr Roberts, President of CIPA, that the most likely explanation for this is that the EU wishes to announce a success. A single patents court for Europe has been under discussion for decades. No doubt, it would feel like an achievement to bring this project to a conclusion. That is not, I believe, an excuse for inadequate legislation.²¹ The UK Government has said of this proposed legislation that it is "essential that we get the details right" (letter from Baroness Wilcox, of 16 November 2011 referred to in footnote 4 above). That is the overwhelming view of those working with the system.

19. The fact remains that the current proposal is for a worse regime than the existing one. One of the Senior Research Fellows of the Max Planck Institute in Munich wrote a critical paper on the proposals recently, in which he observed that "a bad court would be worse than no court at all."²² This too reflects a widely held view.

20. What makes for good short-term political announcements in the EU does not make practical long term sense for industry. There is a risk that the politicians will agree the current proposal and move on, leaving industry to pick up the pieces after the politicians are gone. The most significant change to the patent landscape in Europe in over 30 years must surely improve the system significantly, not make it worse, just for the sake of hurried enactment of legislation.

2 February 2012

Further written evidence from the Chartered Institute of Patent Attorneys

1. The Chartered Institute of Patent Attorneys noted with interest the evidence given by the Minister to the House of Lords Justice and Institutions EU Sub-Committee on 15 February. Their Lordships seem to have the impression that, while resistance to the current proposals was widespread among the professions, both business and industry were strongly behind the proposals. Such an impression would be wrong. We draw attention to the evidence filed by the IP Federation dated 23 January. The IP Federation puts forward views of UK industry on IP matters. They say, among other things, "... *the Federation is extremely concerned that the current proposals for the draft Regulation and draft Agreement will create a patent system in Europe which is worse than we have today.*" (page 2, fifth paragraph). We believe these views to be widely representative of UK industry and business.

2. Nor is the concern by industry confined to the UK. As evidence of that we attach a letter dated 17 February from the Confederation of Swedish Enterprise to the Swedish Minister of Trade. They say: "... *the proposals as currently drafted will not realise the objective of improving the patent system in Europe ... and, accordingly, they should not be implemented.*" (first paragraph).

3. To avoid misunderstanding, we repeat: all agree that the objective of a unitary European patent is a highly desirable one. However it is vital to get the structure right now, or the outcome will make matters worse, not better.

29 February 2012

Annex

Letter to the Swedish Minister of Trade Ewa Björling from Tobias Krantz, Head of Education Research and Innovation, and Annika Ryberg, Intellectual Property Law at the Confederation of Swedish Enterprise

In joint submissions dated 1 and 19 December 2011, the Confederation of Swedish Enterprise and the Swedish Federation of Business Owners voiced criticism of the work on unitary patent protection within the EU and a uniform patent court. It remains our view that the proposals as currently drafted will not realise the objective of improving the patent system in Europe as regards larger and smaller Swedish companies and, accordingly, that they should not be implemented. We believe that the current proposals are a result of the work having been dictated, to an excessively high degree, by considerations other than the efficacy of the patent system and that they represent an unfortunate consequence of a late stage in the work being rushed for political reasons.

²¹ Note also that on 16 November 2011, Baroness Wilcox wrote to Martin Korolec, the Polish Under-Secretary of State, when Poland had the Presidency of the EU. The letter said that there were "significant issues" which had to be resolved before the UK could consider adopting the draft court agreement. These were not just the location of the Central Division but included cost, Article 6–8, rules of procedure and a number of other points. None of those issues have been resolved.

²² Jaeger, All Back to Square One? An assessment of the latest proposals for a patent and court for the internal market and possible alternatives. (15 December 2011) Max Planck Institute for Intellectual Property and Competition Law Research Paper No 12–01. The paper states that the current proposals "show flaws on both the level of the substantive patent and of its flanking court model" and that "it is neither desirable nor advisable to push a bad follow up compromise to the EEU/PC model through the legislative process at any cost." Yet, the EU stands on the brink of doing that.

A crucial objection—which we have raised previously—is that under the current proposals substantive patent law will increasingly assume the character of EU law. There are no objective circumstances justifying such an arrangement, which has been chosen without any compelling reasons in its favour and despite the fact that it represents an obstacle to expeditious and efficient patent litigation. The hurried drafting of a proposal regarding the location of the Court’s central bodies constitutes another example of objective considerations having been forced to give way to political considerations. As we have previously indicated, a co-ordinated solution is required in order for the court to function in a uniform and efficient manner. Unfortunately, the proposed split location satisfies certain national interests but will lead to increased costs and detrimentally impact on the Court’s operation and efficiency.

The political speeding up has not resulted in the adoption of any final political position regarding the court agreement; instead, it has resulted in the necessary work of improving the patent system in Europe being blocked, and postponement of the European Parliament’s debate on the regulations regarding unitary patent protection. The location of the Court’s central division represents one political stumbling block, but there is no political consensus that this is the only issue that remains to be resolved. One important outstanding issue is whether Articles 6–8 of the regulation on unitary protection are to be deleted; this is an urgent wish of the Swedish business community, which has also been supported by the Swedish negotiating team. However, other issues also remain unresolved; we wish, among other things, to point out the need for Rules of Procedure.

One possibility which now appears to present itself is to resume the negotiating work in order to rectify current serious deficiencies which have attracted widespread criticism. It is in the interests of the Swedish business community that Sweden should now actively and forcefully support and promote the endeavours in this direction. The work on improving the patent system in Europe must be continued with a timetable which is objectively based and not dictated by political considerations.

17 February 2012

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The Unified Patent Court: help or hindrance?

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